

**How do SME Networks Evolve? Investigating Network Context,
Features and Outcomes amongst Agrifood SMEs in Greece'**

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Declaration

I declare that this thesis is my own composition and that the research described in it was carried out by me. Specific contributions of others are acknowledged.

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This thesis is dedicated to my aunt Vassilikh, whose life and dedication was an inspiration for me

At the end of my thesis I would like to thank all those people who made this thesis possible and an enjoyable experience for me.

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Abstract

This thesis aims to examine the dynamics and interplay between contextual factors and network features and their role in SME network evolution, with a view to building a theory of how context and features affect SME network performance outcomes. Given the complexity of the phenomenon under investigation, a case study methodology was employed. Specifically, four cases of Greek agrifood SME networks were selected of which two exhibited strong performance and two relatively weak performance. Following literature review, the influence of three categories of contextual factor (*market conditions, social cohesiveness, external institutional support*), and three types of network feature (*member profile, competencies, network governance*) were examined empirically via the case studies. The research found that all six had some individual influence on performance, but beyond this, certain patterns of interplay between factors could be distinguished. In particular, certain positive factors were found to counteract the negative influence of other existing (or lacking) factors. Specifically, in terms of network features, governance structure was found to have a countervailing effect over negative performance outcomes produced by diverse member profile and lack of competencies. In addition, the competencies of the constructor of the governance structure were also important in overcoming deficiencies in other features. In terms of network context, social cohesiveness seemed to have a countervailing effect over contextual disincentives for network strengthening, such as unfavourable market conditions or lack of external institutional support. Overall, the research finds that network features are key to explaining the variability in performance displayed by SME networks operating in a very similar context, since they moderate the impacts of external forces on the evolution and performance outcomes of those networks. The research concludes with a proposed framework to explain how context, features and outcomes interact in SME networks.

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Chapter 1: Introduction

1.1 Opening Statement

The objective of this thesis is to explore the organisation and functioning of SME networks, seeking particularly to investigate their evolution, and the implications for performance, placing the phenomena within a socio-economic context. The purpose of this Chapter is to set out the rationale for this study and the broad research approach adopted. First, a conceptualisation of business networks is offered together with an explanation of their increased popularity in both research literature and business practice (Kanter, 1991). This section also offers an overview of the advantages of networks to SMEs in both the private and public sectors. Next, the Chapter introduces the role of SMEs in the Greek Agrifood Sector (GAS), and explains why a study of networks in this sector is particularly relevant and important. The predominant position of SMEs in the GAS is also stressed. Thereafter, the Chapter identifies key uncertainties in the literature, regarding SME network evolution, for which, it is argued, empirical work is required, leading to a statement of the key research objectives of this thesis. The need for a cross-disciplinary research approach and theoretical context is justified, which combines sociology and marketing perspectives in the light of the dynamic and complex phenomenon of SME network evolution. The value of the research is also described. Finally, the Chapter presents the structure of the thesis, providing a brief description of contents per chapter.

1.2 Business Networks and their Application to SMEs

The popularity of business networks¹ has increased rapidly amongst SMEs and large firms, academics and practitioners, and private and public sectors within recent decades due to dramatic changes in structures and conditions of international markets. Getting involved in networks appears to be not only a 'forced' response of firms to turbulent

¹ Research interest in interfirm relations and networks can be traced to the very early investigation of different 'institutional arrangements with the buying and selling of product and services' (Dixon, 1982; Wilkinson, 2001, p.4). However, since the decade of 1970s network research has increased rapidly (Borgatti and Foster, 2003) with an explosion after 1990 (Ebers, 1999).

economic conditions inherent to globalisation, and the increased pressure from a knowledge-driven and innovation-seeking society, but also a deliberate strategic choice to develop new competences (Cullen, 1998; Vanhaverbeke, 2001), and especially for SMEs to remove size-related disadvantages (Skarka, 1990; Nadvi, 1995). Indeed, compared to large firms, the literature argues that SMEs face more severe performance-related problems (e.g. marketing, uncertainty) due to their small scale (e.g. limited marketing expertise, Carter and Jones-Evans, 2006). This section first offers a brief description of the network concept, and then elaborates why business networks are an increasing favoured approach by practitioners and academics, particularly for SMEs.

As modes of organising economic activity (Grandori, 1995), inter-firm networks have been studied from an extensive range of theoretical disciplines including sociology, organisational or strategic management and industrial economics. Consequently, the conceptualisation of business networks and the empirical cases investigated vary according to the orientation of academics in each research stream. Thus, alternative terms such as 'coalitions', 'partnerships', 'industrial districts' (Scott, 1988; Sabel, 1989; Pyke *et al.*, 1990; Pyke and Sengenberger, 1992; Baker, 1995), 'clusters' (Porter, 1990; Van dijk and Sverrisson, 2003), French *filiere* (Griffon, 1989; Raikes *et al.*, 2000), Japanese *keiretsu* (Dyer, 1996), 'joint-ventures' and 'strategic alliances' (Harrigan, 1986; Anderson, 1990; Gulati, 1998) have come into regular use in the literature. Although a tight definition of business networks would be inappropriate at this early stage of the research, the following definition proposed by Achrol and Kotler (1999, p.148) outlines most of the key characteristics of a business network.

"A network organisation is an interdependent coalition of task- or skill-specialised economic entities (independent firms or autonomous organisational units) that operates without hierarchical control but is embedded, by dense lateral connections, mutuality, and reciprocity, in a shared value system that defines "membership" roles and responsibilities."

In other words, the concept of interfirm networks generally denotes autonomous but interdependent 'nodes' (e.g. individuals, firms, etc.) related by dense connections ('threads' or repeated exchanges) that create a unique operating environment,

characterised by weak hierarchical control, but greater transparency, mutuality and trust (Achrol, 1997), and shared defined values and roles. Not only novel structures, but also the emergence of a new interfirm collaboration ethos is implied, highlighting the actors' orientation more towards relationship-specific investments, rather than immediate gains (e.g. price), as scholars introducing the concept of *embeddedness*² of economic exchanges in social and institutional structures have argued (Granovetter, 1985). Consequently, some greater degree of interfirm reciprocity, incentive alignment, information exchange, and use of 'voice before exit' (Hirschman, 1970; Powell, 1991; Podolny and Page, 1998) are proposed as some of the defining elements of networks. These are also used to distinguish networks from the conventional organisational forms in economic theory (e.g. transaction cost economics), such as markets where actors' opportunism and incentive conflicts may predominate (Baron and Hannan, 1994). In practice, the notion of embeddedness restores the value/importance of a firm's external linkages, which were diminished by a misleading, artificial distinction based on the legal boundaries of a company (Richardson, 1972; Powell, 1990), between hierarchies ('inside') and markets ('outside'), and the inherent assumption that firms operate in isolation. The firm boundaries within the network concept tend to blur (Birkinshaw and Hagstrom, 2000; O'Reilly *et al.*, 2003).

The popularity of the network concept is partially explained by the increased volume and intensity of interfirm networking due to the liberalisation of former state-owned enterprises, the availability of low cost and advanced information technology, globalisation tendencies and the vertical 'dis-integration' of firms combined with the outsourcing of 'non-core' activities (Blundel and Smith, 2001). Most of these changes reflect the logic of a business transformation process, that "too big is inflexible and inefficient", and represent opportunities for SMEs to establish strategic linkages with large firms (Ritter and Gemunden, 2003, p. 691). However, this business transformation is driven by conflicting market demands as Aijo (1996, p.12) has noticed:

² Embeddedness is a metaphor denoting something that is anchored to a larger structure (Hornby, 1995).

'Companies find themselves having simultaneously to lower their costs, improve efficiency, raise the level of quality and service, as well as speed up innovations and the innovation cycle. Typical strategic responses to these often conflicting demands have been flexibility, standardization and customization'.

Therefore, in the turbulent economic conditions inherent to globalisation, networks have constituted an organisational response to dynamic, and sometimes contradictory demands, including volatile, fragmented and regionally differentiated markets (e.g. shorter product life cycles, DiMaggio, 2001), which require increased efficiency (e.g. quality assurance and just-in-time delivery), coordination, flexibility, openness and decentralisation (Whitford, 2005). Empirical evidence suggests that networks as a form of organisation can *use* resource uncertainty productively, mitigate opportunism, and in turn reduce transaction costs (Podolny and Page, 1998). For instance, Achrol and Kotler (1999) point out that networks can dissipate the intensity of environmental disturbances, permitting network members to deal with smaller and manageable parts of them. As Milward and Provan (2006) note, most challenges faced today by organisations in both the public and private sector, regardless of their size, exceed single organisations' capabilities³. In fact, networks can increase the efficiency of resource usage, competitiveness, and the capacity to plan for and address the emerging complex problems.

In addition to the aforementioned reasons, networking is considered an important strategic management option especially for SMEs in order to remove size-related disadvantages e.g. resource constraints (Skarka, 1990; Nadvi, 1995; Gilmore *et al.*, 2000). The notion of the 'virtual organisation' in the literature conveys how small firms through network linkages manage to pool complementary resources and attain effects of 'virtually bigger size' (Sammara and Biggero, 2001; Ritter and Gemunder, 2003). Furthermore, a considerable body of research has provided evidence that networks foster the emergence of entrepreneurial SMEs (Hoang and Antoncic, 2003), by providing

³ They demonstrated that decentralization, outsourcing and devolution changes within the last 25 years resulted in a "networked government" (Kamarck, 2002), where the non-profit and private sector are funded and provide services to the government.

access to resources, advice and emotional support (Zimmer and Aldrich, 1987, Aldrich, 1995; Brüderl and Preisendörfer, 1998). Networking is also recognised as a means by which SMEs can improve their market orientation and response to customer needs (Blankson and Stokes, 2002). Overall, networks have been considered as appropriate devices for both large firms and SMEs to tackle business problems (e.g. the pressure for global expansion and flexibility, creation of superior value along the supply chain, and R&D) that do not fit within a single firm's boundaries, but are spread along the whole value chain (Ritter and Gemunder, 2003; Fjeldstad and Ketels, 2006; Milward and Provan, 2006)⁴. Having introduced the concept of business networks and explained its popularity and importance, the next section introduces the role of SMEs in the Greek agrifood sector, and explains why a study of networks is particularly relevant and important here.

1.3 SMEs and Networks in the Greek Agrifood Sector

Greek agrifood SMEs constitute the empirical focus of this research. SMEs predominate in the Greek Agrifood Sector (GAS), since more than 90% of its production and processing units are small-scale. The GAS makes a disproportionately high contribution to the domestic economy relative to the European average (12.8% of GDP relative to a European Union average of 9.6%, Eurostat, 2006). Recent years have seen the entrance of large, multinational processing and retailing firms into the domestic market, changing drastically the infrastructure of food markets and distribution channels (Anastassopoulos, 2003; Salavou *et al*, 2004). Competition, mergers and acquisitions have intensified (Theodorakioglou and Wright, 2000). Additionally, in the context of CAP reform, and after the European Union's expansion, an even greater need has emerged for agrifood SMEs to be commercially feasible and connected to each other,

⁴ Gummeson (2002, p. 588) states that "*to learn, we must unlearn*", encouraging us to relax distinctions between terms such as producer-consumer, primary-secondary-tertiary sectors. Both producers and customers are active as both value users and creators and exist in networks. He explains that goods, services, information and knowledge, commonly used terms, only constitute the means of production. Researchers should "zoom in on the total offering". Thus, a 'new economy' can be described in terms of (Gummeson, 2002, p. 587): (i) the "*value economy*", stressing the desired output, and (ii) the "*network economy*", stressing the character of the input - the structure and organisation of the resources necessary to produce value.

reflecting the prevailing philosophy of “endogenous development” (Ray, 1999). In other words, each territory is assumed to have some specific tangible and intangible collective resources, offering for potential improvement in social-economic well-being (Ray, 1999). In this climate, it has become extremely difficult and undesirable for SMEs in the GAS to operate in a fragmented, localised, commodity and production-oriented way.

In other southern European countries, agrifood SMEs have successfully developed strong horizontal and vertical networks based on the production and marketing of high quality, value-added end products (Bessi re, 1998; Bianchi, 2001). In many cases, this has been achieved by building on pre-existing structures such as co-operatives or producer associations, and pre-existing relational characteristics such as strong social cohesiveness (de Roest and Menghi, 2000). However, whilst Greece shares many of the characteristics of other Mediterranean countries such as Italy, where strong, market-oriented SME networks have emerged (for example, Greece has one of the largest numbers of registered farmer co-operatives in Europe at over 6900), very few examples of strong networks exist (van Bekkum and van Dijk, 1997). A small number of ‘success stories’ such as the Zagora Apple Cooperative (ZAC), the dairy industry of Epirus Dodoni and the union of agricultural olive oil cooperatives of Sitia⁵, indicates that successful collaboration is possible. But further research is needed to elucidate the networking behaviour of Greek agrifood SMEs, and to explore the reasons why only a few agrifood SME networks in Greece perform satisfactorily. Such research needs to trace the evolution of such networks over time, and compare this to the evolution of under-performing networks, which represent the majority of SME networks in the GAS.

It is for these reasons stated above that Greek agrifood SMEs are the focus of the empirical component of this research. In addition, although the agrifood sector is typically comprised of a great proportion of SMEs, it is traditionally criticised for its

⁵ <http://www.dodonidairy.com/Home/Company/Profile/Default.xml.aspx?Language=2>
<http://www.sitiaonline.com/aboutus.htm> (13 April 2009)

reliance on commodity production efficiencies and lack of market orientation (Armstrong *et al*, 2005). Since networking is recognised as a means by which SMEs can improve their market orientation and response to customer needs (Blankson and Stokes, 2002), this is a further reason why the GAS represents a potentially fruitful sector to research.

1.4 The Research Problem

Having introduced the key features of business networks and the reasons for their popularity, especially amongst SMEs, this section elucidates key issues regarding SME networks that remain problematic and complex, particularly in relation to Greek agrifood SMEs. Empirical evidence suggests that a highly diverse range of SME networks exist, that interact dynamically with the environments or contexts in which they are embedded. This in turn, makes it hard to anticipate their evolution and performance (Provan *et al.*, 2007). In fact, despite the abundant literature on unique capabilities of networks in creating economic opportunities for SMEs, the evolution of a network as a whole entity is treated as a 'black box' (Bell, den Ouden, and Ziggers, 2006). If practitioners, policy makers and academics agree that networks are the appropriate devices for stimulating the competitiveness, productivity and innovation of SMEs, then there is an urgent need for research to focus on understanding and explaining these uncertainties regarding whole network properties, dynamic evolution processes and their impact on network outcomes. Each of these uncertainties is discussed in detail below, preparing the ground for the statement of the research objectives of this thesis.

1.4.1 The Diversity of Business Networks

Whitford (2005) points out the fallacy in considering networks as identical and ignoring variations across nations. He cites the work of Dyer (1996), Westney (2001) and Powell (2001), who show that networks rely on long-term interpersonal commitment in Japan, while the prominent orientation in the United States is project-specific collaborations seeking to foster innovation. The degree of collaboration, coordination, and formality as

well as the power distribution among network members are some of the features that vary considerably across empirical business networks (DiMaggio, 2001). For instance, Powell (1990) and Harrison (1994) notice that despite the shift of capacity (i.e. vertical integrated firms) to specialised subcontracting, the new production model has not necessarily diminished the economic power inequality between large and small firms, by maintaining power, finance and control at the hands of the large firm. Should these examples be rejected as cooperative network relationships, compared to other more genuinely perceived 'collaborative' network forms such as industrial districts? As the reviews of Grandori (1995, 1997) and Brass (*et al.*, 2004), indicate, there is a vast variety of existing network configurations, including: industrial districts, clusters, franchising, joint ventures, consortia, strategic alliances sub-contracting, interlocking directories, clubs, cartels, trade associations, licensing, federations, informal social/personal networks, *filiere* and other forms. With such diversity, Grandori (1997) raises the question of whether it is meaningful to talk of business networks as a coherent concept and whether the aforementioned empirical categorisations can be used as a basis for comparison. She concludes that a theory-driven assessment of different properties of networks, also linked to performance outcomes, needs to be undertaken. Types of collaboration and networking are expected to vary over numerous dimensions (*e.g.* vertical versus horizontal networks, mono-sectoral and cross-sectoral networks, territorial versus non-territorial, "goal-directed" versus "serendipitous" networks, and formal versus informal agreements).

To date however, this step forward in the research has hardly been made, because the interfirm relationship and network literature is very fragmented, due to different academic backgrounds, focus and methods used (Ritter and Gemunder, 2003). For instance, in general, European researchers focus on understanding realities of interfirm interactions, by collecting qualitative data, while US researchers used quantitative methods to analyse the structure and management of relationship ties. Araujo and Easton (1996) identify more than 10 different 'network schools'. Particularly, this diversity signals a need for identifying a set of universal properties-dimensions for

describing a business network, (with emphasis on those networks including SMEs). Structural properties and governance mechanisms⁶ borrowed from the literature could be used for this assessment (Amit and Zott, 2001). The current research seeks to respond to these calls, in the context of investigating Greek agrifood SMEs' networks. This would be a valuable investigation in practical terms for both academics and practitioners (e.g. managers, policy makers), because it will facilitate the comparison of different empirical forms of networking governance, the observation of the evolution of these features' over time and their association with particular performance outcomes. Overall, it would assist in the development of more appropriate theory-driven classification of networks. The evidence presented suggests that stakeholders have relied, thus far, upon empirical and convenient notions of business networks, which inserts high heterogeneity in their approach.

1.4.2 The Dynamic and Embedded Character of Business Networks

Leading on from the uncertainty stemming from the diversity of network arrangements and interfirm collaborations, there is a problem of fully understanding the dynamic change of networks and their embeddedness in social (cultural) and institutional contexts⁷ (e.g. legal, political and economic environment-Powell, 1990). If stakeholders agree that networks are worthy to be established, then it is necessary not only to be able to define them using a set of universal properties, but also to predict their evolution and how contexts can influence this. Empirical evidence has revealed that the interfirm relationships, network structures, network actors' perceptions and behaviours are not static (Johannisson, 1996), they influence and are influenced by the network environment (Johannisson, 1986; Håkansson and Johanson, 2001). An interactive process was suggested to occur at multiple levels (Galaskiewicz and Wasserman, 1994;

⁶ Governance refers to the mechanisms that permit a network to exist (trust, power etc.), whilst structure refers to the picture drawn by network strong and weak ties, as well as the position of each firm in the network.

⁷ Crouch and Farrell (2004, p.8) state that "institutional systems tend to crystalise around coherent logics of ordering, creating path dependencies and 'lock-in'", implying that network members may 're-discover' the alternative paths when environment changes set new demands. Hall and Soskice (2001) explain how national systems influence firms through 'hard-to-copy' and self-reinforcing institutes such as trading systems.

Venkatraman and Lee, 2004) primarily referring to individual actors, the network as a whole entity and the wider environment. But how should a meaningful conceptualisation of network evolution and the interplay with network context be arrived at, in light of the fact that most studies have not systematically distinguished between the three aforementioned levels or categorized the contextual aspects researched? For instance, it is unclear at which level the stimulus for change is generated and how this is transmitted to the other two levels. In existing research, emphasis placed on investigating the dynamic process and the context's influence varies considerably, raising questions as to how intangible and complex phenomena such as 'network evolution' and 'network context influence' can be fully comprehended, distinguished, expressed and measured in tangible ways by both practitioners and academics. Yet, there are more uncertainties associated with the role of the network actors, for instance to what extent do they preserve their freedom to respond differently to a stimulus for change derived from their environment? Is it possible to agree on a universal set of contextual factors, which represent common key influences in all empirical network configurations? Furthermore, what role does network governance play, referring to both formal and informal governance mechanisms? Has it a self-reinforcing character? According to Provan *et al.*, (2007), 'a literature gap also appears to exist in discussing network governance mechanisms explicitly, with few exceptions (Provan and Milward, 1995; Johnsen *et al.*, 1996; Bazzoli *et al.*, 1998).

Finally, three fundamental steps for effective management of networks involve: (i) sorting out what are the essential universal properties-dimensions to describe different empirical network configurations (e.g. structural properties and governance mechanisms), (ii) tracking and analysing the evolution of these properties and (iii) identifying the impact of a set of universal contextual factors on this evolution. As Achrol and Kotler, (1999), Ford *et al.*, (2002) and Milward and Provan (2006) point out, since networks usually are characterized by informal authority structures, a new range of marketing and relationship management skills are required, which emphasise negotiation, coordination and conflict management, in order to address problems and

challenges (e.g. 'free riders', goal consensus, gaining legitimacy, ensuring commitment etc.). As Wilkinson (2001, p.55) and Axelrod and Cohen, (1999) explain, "network management is not simply a matter of controlling and directing the behaviour of other network members, it is more about participating, responding and learning about the problems and opportunities that emerge". Therefore, recognizing patterns in the way that network properties evolve and the implications that this evolution has for managing interfirm relationships and network configurations would be valuable in practical terms. Additionally, it would provide a more precise answer to the question: to what extent do actors preserve their freedom and power in altering a network's evolution towards a favourable direction?

In summary, although the literature has demonstrated the existence and functionality of networks in volatile market conditions, it has paid relatively little attention to the in-depth investigation of their evolution and the impact of contextual factors. In stating this, it is necessary to distinguish between evolution studies of interfirm relationships in a network context and those of networks as whole entities. Few studies (Human and Provan, 2000; Powell, 2005; Koka *et al.*, 2006) have concentrated on how a whole network configuration evolves, discussing particularly constraints underlying their formation, governance and functionality (Podolny and Page, 1998). Bell *et al.*, (2006) and Provan *et al.*, (2007), in their reviews, highlight the need for further research on evolution at the level of the whole network, to understand how and if it can be predicted and managed. For instance, a central question here is: What hinders the shift from an existing network configuration that becomes increasingly ineffective due to changes in context/environment, to a different form? Overall, there is a need to understand the interplay over time between a network's properties, including its structure and governance, and contextual factors, and how and if this interplay can be managed and controlled. The current research seeks to address this gap, in the context of Greek agrifood SMEs' networks, aiming to provide more precise answers to the questions of how a given network configuration came to be and is expected to evolve.

1.4.3 Network Evolution Impact on Performance Outcomes

Whilst the preceding two sections have raised the uncertainties related to network properties and evolution processes respectively, this section refers to the question of the impact of network evolution on performance outcomes, whose answer is assumed to provide a fruitful means of *successfully translating SME networking behaviour into tangible performance outcomes*. Provan *et al.*, (2007) notice that the literature has placed more emphasis on efficiency rather effectiveness and on outcomes of network members rather the whole network. Drawing from empirical evidence, mixed messages are conveyed. Specifically, networks are seen as appropriate flexible devices to address volatile market conditions, but “are fragile and need a good deal of stability to operate effectively” (Mildward and Provan, 2006, p.12). How do these tradeoffs (i.e. flexibility versus stability) actually occur? What network configurations actually arise from the possible ones? Due to the limited knowledge on evolution of whole networks and the interplay with contextual factors, the reality of networks remains complex. Their formation, maintenance and effective performance are hard to guarantee, so networks can certainly fail (Kogut 1988; Killing, 1982; Powell and Smith-Doerr, 1994; Inkepen, 1996; Mildward and Provan, 2006) or have negative effects (e.g. cartels, unstable competitive advantage, Provan *et al.*, 2007). It is indicative that models of close interfirm collaboration such as the Japanese *keiretsu* or the ‘flexible specialisation’ of the Italian *industrial districts*, have been found not “fully coherent and importable” to countries with different social and institutional conditions, such as the United States (Hamilton and Biggart, 1988; Dobin, 1994; Whitford, 2005, p.15). Inclinations towards opportunism, trust, legal contracting and self-interest are found to be affected by distinctive institutional patterns across national borders (Cooke and Wills 1999; Keeble *et al.* 1998, 1999). Consequently, there is uncertainty regarding the interplay between contextual factors, network evolution and performance. A further problem related to this uncertainty is that, “the outcomes are complex and may not easily or even in principle be traced to actions of individual network members” (Wilkinson, 2001, p.49). Particularly, the notion of *equifinality* suggests that organisations can utilize different orientations

(e.g. conservative versus entrepreneurial; cooperative versus non-cooperative; market-oriented versus non market-oriented) to reach the same objective (e.g. high performance, competitive advantage, longevity) and achieve the same performance outcome(s), because exogenous or endogenous, known or unknown factors have counterbalancing effects (Selnes *et al.*, 1996). This signals a need for adopting an holistic research approach and investigating network properties, context and outcomes together, so as to fully understand their interplay when focusing on the whole network, from the supply side. The current research attempts this approach. A deeper knowledge of the network evolution phenomenon, reasons, and implications for the performance of individual SMEs is likely to enhance actors' ability to manage and control a network's development, assessing more accurately the extent to which a particular network is sustainable and can create value. Studying the whole network from the supply side is especially relevant to the interests of policy makers on collective behaviours and outcomes, beyond the performance of individual organisations (Provan *et al.*, 2007).

1.4.4 Methodological Issues

Over and above the practical and commercial ramifications described above, the revealed uncertainties with respect to network evolution also have some important methodological implications. Empirical evidence relating to network evolution has shown that individual members of networks attach meanings to rules, goals and values (Lipparini and Lomi, 1999; Van Raak and Paulus, 2001), resulting in dominant logics when these meanings are held by a large group of network members and their leaders (Bazzoli *et al.*, 1998; Owen-Smith and Powell, 2004). Thus, that the meanings of complex concepts and phenomena such as “network”, “evolution”, “effectiveness”, “context of a network”, “impact of network evolution” are socially constructed, and in turn can have multiple interpretations rather than a ‘definite’, ‘objective’ and ‘concrete’ meaning in time and space (Provan, *et al.*, 2007). Therefore, to understand multifaceted phenomena such as network evolution in the course of a research project, it is proper to collect the different meanings given and interpret them through the eyes of research subjects (Henwood, 1996). A further methodological challenge in research of network

dynamics is to include feedback effects, not just unidirectional causation (Wilkinson, 2001). Studying how identified meanings are constructed over time and how they influence the protagonists' choices and behaviours sheds light on the network dynamics. Hence, the current research seeks to adopt an empirical research methodology, that allows multiple meanings to be captured, as well as a dynamic perspective.

1.5 Research Objectives

Building on the discussion of existing uncertainties and gaps in knowledge regarding how business networks evolve and how factors interplay affects performance outcomes, this section presents the following research objectives, which this thesis is devoted to addressing:

1. *To describe the key features and trace the evolution of a sample of SME networks, as whole entities, within the Greek agrifood sector*

Both a static and a dynamic description of SME network configurations are needed to capture the dynamic character of interfirm relationships, suggested by the literature. This objective is valid in the absence of a uniform set of theory-based terms assessing different properties of an SME network configuration (Grandori, 1997), and of a clear understanding of the network evolution phenomenon (Provan *et al.*, 2007). Responding to this literature gap, the current research seeks first to identify key descriptive network features, including both structural properties and governance mechanisms, and second, to trace their historical evolution in the context of a sample of Greek agrifood SME networks. Network performance outcomes are also traced. This objective clearly reflects the core interest of this research.

2. *To identify the key factors influencing the evolution of these networks, both in terms of contextual factors and network features*

Given the lack of agreement amongst researchers on the identity and impact of factors influencing network evolution (Grandori and Soda, 1995; Provan, *et al.*, 2007), the second objective of this research is to investigate the contextual factors influencing the evolution of networks and to examine the interplay between the contextual factors and network features, such as structural properties and governance mechanisms. In particular, the research attempts to explain how network configurations shift or change over time in response to contextual or environmental circumstances, (or indeed, how they do not shift or change).

3. *To build a theory of how the context and features of these SME networks impact on the performance outcomes of individual SME members, and the networks as whole entities*

In view of the knowledge gap relating to SME network performance, in terms of how it can be explained, and what really influences it, the third objective of this research is to build a theory of how the context and features of the SME networks impact over time on the performance outcomes of individual SME members, and the networks as whole entities. This objective is valuable academically because first the existing literature suffers from mainly discussing network impacts on individual SMEs, rather than the whole network. Second, although it stresses that a network can be ineffective and fail, as evidence for Greek agrifood SME networks shows, performance has not been linked with network evolution, which appears hard to anticipate. By considering the interplay over time between a network's features, context and outcomes, a theory linking these three components goes beyond the limited traditional focus of research on each component separately. Instead, it captures the dynamic interactions of particular endogenous (e.g. features) and exogenous (e.g. context) factors on network performance, and in turn enables practitioners to understand the tradeoffs and management challenges they have to face, their role and power, if any, in network evolution. The ultimate goal of this research is to identify key critical conditions for the existence/feasibility and effectiveness of agrifood SME networks.

1.6 Research Approach and Theoretical Framework

As may be appreciated by the discussion and evidence presented thus far, the investigation and explanation of business network dynamics requires a cross-disciplinary research approach which acknowledges both the social and economic nature of interfirm relationships. On the one hand, adopting a sociological perspective is deemed necessary in order to capture how social relations influence the nature and evolution of network linkages. Literature justifies this requirement through the notion of *social embeddedness*⁸ (Granovetter, 1985), which suggests the on-going contextualisation of economic exchange in the structure of social relations. Therefore, the current research will trace the social history of interfirm relationships and the impact of macro-environmental forces for the SME networks in the empirical study. On the other hand, an economic, marketing perspective is also necessary to capture how costs of networking and actors' strategic choices influence the nature and evolution of network linkages. Literature justifies this requirement, by highlighting first that building and maintenance of interfirm relationships costs (Mattsson, 1998), and second that network linkages mainly represent the actors' deliberate (strategic) marketing decisions to fulfill certain economic purposes (Håkansson and Turnbull, 1982). Furthermore, Ford *et al.*, (2002, p.18) note that network outcomes affect subsequent networking choices, revealing a "learning by doing" pattern in networking, a "controlled experimentation". This implies a proactive role for the network actors who may impose meanings and values on their interfirm relationships which are more consistent with the goals that they are trying proactively to pursue rather than the true 'realities-qualities' of the relationship. Therefore, the current research will investigate the impact of networking costs and actors' strategic choices for the SME networks in the empirical study.

The cross-disciplinary perspective adopted is consistent with the recommendation made by Hoang and Antoncic, (2003 p. 168) to increase 'cross-fertilisation across process- and

⁸ "Embeddedness theory was formulated precisely in order to provide an alternative to both 'over-socialised' and 'under-socialised' conceptions of human actions, and examines how social ties may enable social action as well constraining it" (Whitford, 2005, p. 17).

outcome-oriented research' and to investigate which particular network conditions lead to various network outcomes. Particularly, a sociological perspective facilitates the investigation of processes (e.g. environmental stimulus for change, socially constructed meanings), whilst an economic, marketing perspective focuses the research on the outcomes of networking (e.g. costs, benefits) and their impact on subsequent networking changes (e.g. what was learnt by doing). As may be appreciated thus far, the nature of research objectives and the cross-disciplinary perspective adopted imply a need for an exploratory and holistic character in the current research. Therefore, the empirical component of this research adopts a qualitative case study methodology. Specifically, it comprises case studies of four Greek agrifood SME networks, where the evolution of each network is traced and explained with reference to contextual factors and network features, and where the performance outcomes are also examined, compared and explained.

1.7 Value of the Research

The value of this research is threefold. First, in generating knowledge about the factors that influence network evolution, and identifying network features, the research would be valuable to both academics and practitioners (e.g. managers, policy makers) in assisting comprehension of networks as whole entities, and allowing comparisons between different empirical network forms. Second, the research would allow the same stakeholders to gain insights into the interplay between the aforementioned network features and a developed set of key contextual factors. This would allow them to (i) explain how a given network configuration came to be and/or is expected to evolve, and (ii) evaluate whether and how this interplay could be managed and controlled. Finally, in explaining the association of network evolution to particular performance outcomes, the research would help both academics and practitioners to fully understand the performance of not only individual network members, but also whole networks. In practice, since the great majority of Greek agrifood SMEs does not appear to be performing optimally, findings could be extremely valuable to Greek policymakers and agencies with development remits.

1.8 Structure of the Thesis

This Chapter has introduced the main subject matter of this research, and has stated and justified the key research objectives. The thesis proceeds with Chapter 2 which gives an overview of the Greek agrifood sector and the role of SMEs within it. Next, Chapter 3 reviews the literature relating to SMEs and business networks, addressing key questions regarding how networks evolve, the explanations for this evolution, the implications for the performance outcomes of individual firms and of whole networks. It concludes with a framework consisting of the theoretical propositions derived from the literature, which is used as a starting point for the empirical study. Chapter 4 then describes the methods employed for the empirical study: specifically four case studies of SME networks in the GAS. The Chapter describes and justifies the actual methodological choices made and the practical techniques employed for data collection and analysis. Thereafter, the thesis presents four result Chapters, each one dedicated to presenting and analysing each of the four case studies (Blauel organic olive oil, Kefalas organic olive oil, Zagora Apples and Agia Apples respectively). Chapter 9 consists of a cross-case analysis of the four case studies and presents the (revised) theoretical framework which constitutes the main contribution of this thesis. Finally, Chapter 10 draws together all the main findings in answer to each of the key research objectives outlined in this Introduction, and concludes with limitations of this study and avenues for further research.

Chapter 2: Agrifood SMEs in Greece

2.1 Introduction

In Chapter 1, it was highlighted that the Greek agrifood sector offers as an intriguing case study for investigating the phenomenon of business network evolution. A key aim of this Chapter is to introduce the aforementioned sector to the reader, in terms of its relative contribution, structure, performance, and embeddedness in the political, legislative, and social context. The role of SMEs, farmer cooperatives and the State's intervention in the sector development is presented. Also, it is explained how this discussion shapes the research objectives and methodology of this thesis. The Chapter now proceeds as follows. The first section describes the agricultural sector's contribution to the Greek economy and its features, performance and problems. The next two sections illustrate the role of SMEs and farmer cooperatives respectively in the agricultural sector, addressing the key of questions why both of these underperform, what challenges they face, and how State intervention has affected their development. The last section draws together the arguments that form this thesis' research questions and certain choices made in methodology.

2.2 The Agrifood Sector in Greece: Status and Trends

The general premise in the literature is that despite its considerable size relative to the economy and its contribution to both main macroeconomic indicators (e.g. GDP, employment, exports) and the maintenance of social and economic cohesion in rural and remote areas, the Greek Agrifood Sector (GAS) is confronted with several natural, structural and demographic factors that seriously impede its performance and competitiveness. The agrifood sector, particularly for this research, includes agriculture and the processing industry of agricultural products. However, reference is also made to the wholesaler/retailer distribution channels and end-consumers, to complete the picture.

2.2.1 Contribution to Macroeconomy

Data from the National Statistical Service of Greece (NSSG) show the GAS appears to have a far-reaching but decreasing contribution to the main macroeconomic indicators of the domestic economy. First, is the observation that since the early 70's, the agriculture sector, including agriculture, forestry, fishery, and livestock, has dramatically shrunk. Hence, it contributes less to total employment, and GDP has reduced from respectively 40.6% and 18.9% in 1972 to 16.6% (accounting for around 676,000 persons) and 6-6.5% in 2004. Both these statistics are approximately four times higher than the EU averages (Pezaros, 2004a). Until 1970, the GAS was the largest domestic sector, but today its GDP contribution is the lowest among all major industries, namely: wholesale and retail trade (26-28%), financial and real estate activities (20-22%), other service activities (20%), manufacturing including energy (13-15%); and construction (8-10%) The average monthly labour cost (approximately 1019 Euros) represents only 75% of the national average. Second, the processing industry of agricultural products (i.e. food and drinks) is vital, since it is the largest processing sub-sector, representing around 27% of the national industrial output and more than 20% of industrial employment. It contributes 25.1% of GDP and employs 21.8% of national labour.

Furthermore, regarding the Greek exports-trade balance, agricultural products and foods accounted for 22.7% of the value of exports and 11.2% of the value of imports in 2003. Although the trade balance was in balance until the beginning of the '80s, it moved into deficit after Greece joined the EU, and has constantly deteriorated to reach 1.7 billion Euros in 2003. This reflects the lower competitiveness of the GAS compared to other European countries. In fact, income subsidies combined with state corporatism have had a stagnant effect, created a plasmatic picture for market competition without any signal for cost efficiency, leaving farmers unprepared for the post-protection period (Pezaros, 2004a). "Greek agricultural policies were chiefly income-oriented in character, placing emphasis on subsidising the volume of production, and not enhancing the necessary structural adjustments" (Karanikolas and Martinos, 2007. p.40). Additionally, the

imbalance originates from the country's low degree of self-sufficiency (54%) in meat products, especially beef. Domestic agricultural production is predominately crop-oriented. Particularly, the ratio between the total production values of plant and livestock production is 70-30. Tables 2.1, 2.2 and 2.3 show the volume of different agricultural products, the percentage of value of the total agricultural output per product category, and the degree of self-sufficiency per product.

Table 2.1: Volume of Different Agricultural Products (2004)

<i>Product</i>	<i>Volume (1000tonnes)</i>
Cereals	3283
Sugar beet	862
Tomatoes	1450
Apples	264
Pears	47
Oranges	970

Source: NSSG (2004)

Table 2.2: Proportion of Different Agricultural Products over the Total Value of Agricultural Production (2004)

<i>Product</i>	<i>% Contribution</i>
Fruits	13,6
Vegetables	13,8
Olive Oil	12,2
Cereals	11,1
Cotton	9,7
Tobacco	4,5
Milk	8,8
Lamb meat	8,7

Source: Damianos *et al.*, (2006)

2.2.2 Natural/Geo-physical Constraints

The shrinkage of the GAS could be explained by natural and geo-physical constraints, as well as demographic and structural limitations. First, despite the generally favourable climate, the GAS faces various natural and geo-physical restrictions (Galanopulos *et al.*,

Table 2.3: Self-sufficiency for Different Agricultural Products (2004)

<i>Product</i>	<i>%</i>
Cereals	78
Wheat	81
Corn	74
Fresh fruits	134
Fresh vegetables	105
Sugar	63
Wine	116
Milk products	93
Butter	131
Meat (overall)	54
Beef	25
Pork	41
Poultry	79
Lamb	82
Eggs	96

Source: Damianos *et al.*, (2006)

2006), including large mountainous and less-developed areas, and scarcity of useful and fertile agricultural land. The dry climate, especially during the irrigation periods, results in insufficient water resources that in turn increase production costs and encumber overall efficiency. Particularly, the climate is temperate and mild, with wet winters and hot summers. Such conditions are generally favourable for agriculture, especially plant cultivations, explaining the crop-orientation of the GAS. With respect to geography, Greece is a hilly and mountainous country, with flat land generally restricted to small coast plains. The only exception constitutes two large plain regions: Central Macedonia and Thessaly in northern and central Greece respectively. In numbers, 80% of land is steep, of which 36% has very steep slopes (>30%). This results in the utilised agricultural area covering only 29.54 % (i.e. 3.9/13.2 million hectares) of the country's surface, of which 27% is given to plantations of trees in 1998 (Galanopoulos *et al.*, 2006). There is underemployment of farmers due to seasonality of crop-cultivation⁹. This geography of mountains and a vast number of 2000 islands, does not favour the

⁹ In 2000, 67.5% of farmers spend less than 50% of their time to agriculture, due to seasonality of the crop cultivation practices compared to livestock (similar effect to Italy, Spain), causing underemployment. However, only 1/3 of them have an alternative activity and source of income (Damianos *et al.*, 2006)

development of efficient physical distribution systems (Pezaros, 2004). Regarding water resources, more than 40% of agricultural land in 2002 was irrigated lands, with a sharp increase. There are few rivers mainly in northern Greece, of which most dry up in summer. In the last 50 years, the precipitation in certain country parts has fallen 30%, but the country does not apply desalination or reusing of treated wastewater, therefore it may limit the expansion of irrigation.

The scarcity of useful agricultural land is worsened by the lack of a national cadastre¹⁰ and regulatory framework of land use, which has led to a sharp increase in land value, independent of its productivity (Louloudis and Beopoulos, 2001). So, both the increased costs and non-farm usage of land are counterincentives for farm expansion (Galanopulos *et al.*, 2006).

2.2.3 Demographic Constraints

There are also demographic constraints to the GAS' development, referring to ageing and low education level of farmers. In 2002, 52.6% of farmers were between 45 and 64 years old, 9.4% older than 65, and more than 86% of employees and farmers had a very limited (elementary) education (Galanopulos *et al.*, 2006). These characteristics explain farmers' limited interest for investing in agriculture, searching for innovation and why they use mainly empirical cultivation techniques (Papageorgiou *et al.*, 2005). These results in increased production costs, inefficiency, and low product quality. Also, there is a limited ability to transfer farmer labour to other sectors. The structural constraints of the GAS are explained in detail in section 2.3. So far, it has been implied that the GAS has been increasingly influenced by changes happening at the European and global level. These changes and some of the challenges created are described below.

¹⁰ It is the national register of property showing the extent, value, and ownership of land for taxation.

Figure 2.1: Geo-physical Map of Greece



2.2.4 Policy Context and Challenges

The first policy ‘moment’, which constituted a challenge for the GAS was the accession of Greece to EEC/EU in 1981. According to Pezaros (2004), the GAS become fully regulated by the CAP (e.g. support in farmer prices, guaranteed minimum prices, direct export subsidies, import tariffs), under the almost exclusive competence of the European Commission, in which the Greek ministry of agriculture has participated and co-decided. Consequently, experience was needed in lobbying at the European level and also the establishment of a channel was needed for systematic interaction between the ministry

and the GAS's stakeholders (e.g. the farmers and their civil organisations, regional and local authorities and other supply chain actors of agricultural products). The trade balance went into deficit, first because of the diversion of the GAS's export market away from third countries towards the EU countries, and second because of the country's failure to adjust its production capacities to the changes in domestic consumption patterns. Particularly, imports were needed to cover increased domestic demand for dairy products and red meat products exceeded the increased exports in plant products (Hellenic Ministry of Rural Development and Food¹¹).

The second crucial policy 'moment' relates to the two major CAP reforms in 1992, and 2004 respectively. The former gradually eliminated farmers' price support system and introduced quantity quotas, shifting the production orientation from quantity to quality. This trend was accelerated by the CAP reform in 2004, forcing a movement of farmers' support from production-related aids to direct income support, and its association with requirements for compliance with environment-friendly production practices (i.e. decoupled payments- the "Green Box"). However, as Pezaros (2005, p.7) states, "it is utopia, to believe that farmers in the Southern European areas, such as Greece, everywhere can switch rapidly and fully from livestock breeding or crop cultivation to gardening, eco-tourism or handicraft production".

Third, the General Agreement on Tariffs and Trade (GATT) in 1994 was another force encouraging globalisation, trade liberalisation and cutting import tariffs and other obstacles to international agricultural trade. This increased pressure on the European agriculture sector, including the GAS, to increase its competitiveness.

Next, a decisive factor in the GAS' development was the country's full integration into the European common market in 1992, which sharply increased domestic competition from imported goods, while the introduction of the Euro and price liberalization led to a profound increase in production costs and consumer prices. This caused inflation

¹¹ www.minagric.gr/en.1.2.7.2.html, (27 December 2008)

(Pezaros, 2004), permitted the fast penetration of global brands and consolidation of their position in the domestic market. Consequently, traditional Greek agricultural products began to decline, while an intense trend for concentration among distribution actors occurred. The average consumer price level in Greece moved upwards about twice as fast as that in the rest of the EU, particularly the price index changed from 83 in 1981 to 522 in 1992 (1982 = 100, NSSG).

Finally, the recent EU enlargement to neighbouring Balkan and East European countries (2004) is expected to have both positive and negative impacts on the GAS' development. These countries mainly are not direct competitors, giving a potential for increase in Greek exports, however, they pose a threat of reducing the EU-structural funds that Greece receives. It is evident, especially since 1992, that the GAS has faced two sharply increased demands, one for competitiveness and one for full market liberalisation, related to dramatic elimination of national and European protectionism. Very few studies have been conducted on how its economic actors perceive and respond to these challenges, specifically on how their networking activity is influenced, and what incentives or obstacles for networking have emerged (Blavoukos, 2003). Before turning the focus on the GAS' economic actors, it would be useful to have an insight on domestic consumers' trends, which also formulate the supply chain's challenges.

2.2.5 Domestic Consumer Trends

The dominant trend amongst Greek consumers is that having been familiar with foreign products, they are becoming more sophisticated, starting to appreciate branding, packaging, advertising, and quality. This has forced domestic producers to be market-orientated, advance their product/service quality and marketing practices.

To elaborate, after 1981, Greek consumers moved closer to the European average, in terms of consumption patterns, lifestyles, social attitudes and demographics. They adapted to other Europeans' choices of products or brands and buying behaviour patterns according to the new lifestyles. Particularly, convenience, quality and prestige

have been the basic axis of consumer behaviour, with an increase in the importance of diet and health foods (Kouremenos and Avlonitis, 1995; Krystallis *et al.*, 2008). Greece has the highest per capita consumption of fruits and vegetables and olive oil in the EU (twice the EU average in 1992). Products which traditionally have been sold unpackaged, such as bread, olive oil, wine, cheese, meat, fruits and vegetables, constantly change over to packed and branded forms (Kouremenos and Avlonitis, 1995; Euromonitor, 2004). In 1992, the advertisement deregulation and permission given to private television and radio channels to operate resulted in an increase in advertisement time and consumer exposure (Kollintzas and Bitros, 1992). Consequently, the attention paid to food product labels, quality, origin specifications and marketing promotions has increased. For example, in relation to wine purchasing, Fotopoulos *et al.* (2003) find that over the last decade, domestic consumers are seeking labels with a clear geographical identity and high quality level. Despite the increased brand competition and heavy TV advertisement, however similar trends are not observed in the consumption of olive oil, because Greeks strongly prefer and trust raw rather than standardised and packed olive oil (Kouremenos and Avlonitis, 1995). So far, reference has been made to the GAS' underperformance, and the next section describes further its structure and performance. For convenience, the analysis addresses food production, processing and distribution units separately. Moreover, examples of particular sub-sectors (i.e. olive oil; fruits and vegetables) are given.

2.3 Structure and Performance of the Greek Agrifood Sector

The general premise in the literature is that the Greek food producing, processing and distributing sector underperforms, is fragmented, and dominated by SMEs. However, their number is declining through mergers, acquisitions and vertical integration due to intensified competition in the domestic market after 1992, because of the increased presence of multinational manufactures and retailers, as well as imports. At the same time, there are oligopolies of large processing units in most product categories. Overall, the high potential for development in both domestic and international markets of most

Greek agrifood products is under-exploited due to low added value and lack of both efficient supply chains and marketing strategies.

2.3.1 Structure of food production, processing and distribution units related to the agricultural sector

In terms of structure, the agricultural sector is dominated by family-type agricultural holdings: 77% of the 817,059 holdings are less than 5 Ha, and no more than 3% are more than 20ha. The average area is 4.5 Ha per holding, about four times less than the EU-15 average, usually subdivided into 6-7 parcels (Pezaros, 2004). Recently, the observed trend is that the number of large farms is increasing at the expense of smaller ones (Galanopoulos *et al.*, 2006). Overall, the sector is strongly fragmented and characterised by quite small and medium-sized farms, family-based.

Galanopoulos (2004) showed that the agrifood processing industry is also characterised by a high number of small units (992 in the year 2000), 90% of which have less than 10 employees (Psaltopoulos, 2001). However, there are also large companies, which build plantations in other countries, mainly in the Balkans. In 2001 11 out of the 50 largest Greek companies ranked according to their profit, were operating in the food-processing sector (12 out of 50 if ranked according to the sales, 13 out of 50 if ranked according to the employees' number). The large companies dominate particular sectors: dairy (4firms); tomato (5-6); confectionery (2); bread products (2), pasta (6-7), brewery (2) beverage (2) (Baltas, 2001). Table 2.4 shows that more sub-sectors are characterised by large numbers of operating firms. As an overall trend, the number of SMEs declines, and oligopolies exist in some sub-sectors.

With respect to the wholesalers and retailers in the marketing channels of fruit and vegetables, in 2001, there were 2085 active wholesalers, and 3277 retailer firms, of which 92% are SMEs (Galanopoulos *et al.*, 2006). Four types of distribution channels for fruit and vegetables were identified (ICAP, 2004):

Table 2.4: Greek Food and Drinks Sector (2001)

<i>Sub-sector description</i>	<i>Prod. volumes</i>	<i>Sales volumes</i>	<i>Value of sales</i>	<i>No of firms</i>
	mill. T	mill. €	mill. €	
Meat and meat products	179	151	402	247
Edible fish	7	6	17	30
Fruit & vegetables	1,414	1,245	1,067	463
Vegetable & animal oils & fats	581	540	324	146
Dairy products	1,143	1,084	1,726	475
Flour and products	2,306	1,942	630	303
Animal feeding stuff	1,602	1,356	401	198
Other foodstuffs	1,284	1,192	1,332	706
Drinks & beverages	2,595	2,635	929	521
TOTAL		10151	6828	3089

Source: Damianos *et al.*, (2006)

(i) Central Fruit and Vegetables Markets (CFVMs) with a market share of around 20-25%, one located in Athens and another in Thessalonica. The former includes 550 wholesalers and distributes around 550,000 tonnes of fruit and vegetables, while the latter includes 280 wholesalers, distributing nearly 280,000 tonnes.

(ii) Wholesalers outside the CFVMs with a market share 35-40%. They purchase directly from local producers and have standardising facilities or import from third countries and sell to specialised retailer outlets and supermarkets.

(iii) Multiple retailers/ Supermarket chains with an estimated market share of around 20%. They purchase either standardised quantities from wholesalers, or import. Recently, they also purchase directly fresh produce from growers and standardise at their own facilities.

(iv) Direct sales in street-markets, with an estimated market share of around 10-15% and a long tradition in Greece.

As an overall trend, the share of supermarkets is constantly increasing at the expense of wholesalers, the neighbour grocery shops and street markets, while packaging is a constantly increasing practice, since the early '90s (Tzimas and Bennison, 2003; Bourlakis, 2001).

2.3.2 Performance of food production, processing and distribution units related to the agricultural sector

The performance of food production units is characterised by structural difficulties, resulting in low quality and increased costs. Due to significant increases in the prices of agricultural inputs¹², without a corresponding increase in output prices (e.g. the price of olive oil has in fact decreased), Agricultural incomes in Greece per AWU (i.e. Annual Work Unit) are lower than in most EU countries, at approximately 74-77% of the EU-15 average. Similarly, the performance of small-scale food processing units is typical of low production capacity and usage of a local distribution network. Overall, it has two dominant characteristics: a high tension of inputs, as input costs represent almost half of total costs, and also a low-tension of capital (Galanopoulos et al., 2006).

However, recently the number of small-scale processing units has been declining. A number of reasons are identified. First, the increased competition from imported goods following the market opening in 1992 (Salavou *et al.*, 2004), is combined with the fact that domestically, small-scale units have struggled to compete with large firms, promoting their brands nationally and gaining consumer loyalty via product diversification strategies (Oustapassidis, 1998). The decline is further fuelled by the increasing presence of multinational firms in Greece (Anastassopoulos, 2003; Euromonitor, 2004; Salavou *et al.*, 2004), which has intensified competition and increased merger and acquisition activity (Theodorakioglou and Wright, 2000). In contrast to small-scale processing units, large firms – both domestic and foreign – have national distribution networks, and they tend to differentiate and integrate rather than specialise on a single product. Vertical integration is attempted both downstream and upstream. Whilst these developments are on-going, most Greek agrifood processing and distribution channels remain in the hands of SMEs and are characterised by fragmentation and lack of co-ordination (Galanopoulos, 2004).

¹² The oligopolistic structure of the agricultural inputs market and that the bulk of agricultural inputs is imported explain why higher prices paid for most inputs in Greece, for instance during the period 1995-2002, input prices were increased from 16%-30.6% compared to 1%-5.9% in the EU average.

The marketing activity of food processing units is also weak. Although Greek agrifood products generally have a good quality reputation, it is not necessarily the result of branding initiatives, rather it is the Greek origin that appeals, in contrast to other EU countries (Papadopoulos, 1995; Hughes *et al.*, 1998; Tzouvelekas *et al.*, 2002). Consequently, many Greek agricultural products are exported in bulk to other countries, where they are processed, branded and re-exported at higher premiums. Some examples are durum wheat, olive oil and tobacco (Psaltopoulos, 2001; Tzouvelekas *et al.*, 2002). Greek exports are priced at a higher price than the world average units. However, "Greek brands are not well-recognised abroad and a better-organised promotional campaign in major importing countries (northern European countries and the USA) is necessary" (Galanopoulos *et al.*, 2006, p. 29). The domestic industry and market used to be more protected and less competitive than the European ones, so foreign products which relied on superior marketing know-how, penetrated the Greek market easily after 1992. To support this argument, Avlonitis *et al.*, (1992) provided evidence that a major differentiation factor between profitable and unprofitable Greek companies relates to the executives' attitudes towards marketing and to the corresponding degree of marketing implementations. Salavou *et al.* (2003) offer evidence that some Greek agrifood SMEs do have market-oriented tendencies, and in turn innovation precedence compared to product-oriented SMEs. However, many Greek agrifood SMEs have limited market and regulatory intelligence, for example relating to changing trends in consumer requirements and EU agrifood production legislation (Damianos and Giannakopoulos, 2002; Agricultural Corporatism, 2005). Consequently, they often face difficulties in meeting the quality and safety requirements of European consumers (Dimara, *et al.*, 2004).

Regarding the performance of food distribution units, around 50% of wholesalers are located in the two CFVMs in Athens and Thessalonica, the rest are typically very small family enterprises, located throughout the country, and often acting also as retailers. Yet, the two CFVMs are neither sufficient nor properly equipped (e.g. they lack new and

advanced machinery and storing facilities). Consequently, each year large quantities are distributed outside the CFVMs, whereas in the previous decades the bulk of the produce was distributed through them. The trade outside the CFVMs had an adverse effect on regulating and monitoring the market and it is suspected that a considerable portion of the produce is distributed via unregistered channels.

2.3.3. Examples of Performance of Fruit & Vegetables and Olive Oil Sectors

Fruit and vegetables accounted for roughly 20% of Greek fresh and processed food exports (i.e. fruits 15.6% and vegetables 3.9%), and 4% of total exports in 2003. Greece is a prominent actor in the global olive oil market, since its share is more than 10%, compared to 0.1-1.9% for particular categories of fruits and vegetables and 5.7% for oranges in 2003 (Galanopoulos *et al.*, 2006). Fruit and vegetables are traditional Mediterranean products cultivated in Greece for centuries, along with olive oil. Both constitute traditional exporting sectors and are major contributors to the domestic agricultural economy, in terms of employment, production areas, volumes and values. For instance, olives are the crop that could thrive in less fertile and stony grounds, thanks to their modest water demands. Therefore, olive cultivation is the only income source in less favoured areas.

The prospects seem quite favourable for olive oil produce (Galanopoulos *et al.*, 2006), since domestically, increased brand-competition and heavy TV advertisements are evident, to address the main constraint for the market development that Greeks prefer to buy raw olive oil. Abroad, although labelled Greek olive oil is gradually gaining shares in world markets, the bulk of domestically produced oil (nearly 90%) is still exported raw mainly to Italy. Italians mix their produce with the higher quality Greek olive oil, then standardise, package and re-export the Greek produce (Tzouvelekas *et al.*, 2002; Psaltopoulos, 2001).

Regarding fruits and vegetables, although generalisations for such a broad category are not safe, the prospects may not be favourable. Research shows that Greece has a clear advantage in producing fruits rather vegetables (Galanopoulos, *et al.*, 2006). Despite the favourable soil and climatic conditions, the sector's competitiveness is hindered on the production side by the lack of early or late ripening varieties and usage of certified seed, low yields and quality, along with increased production costs and prices. In the standardisation and distribution side, low standardised marketed quantities, large number of small-sized units, ill-equipped in standardisation, storage and packaging facilities are noticed. Additionally, the absence of a national exporting strategy (i.e. lack of advertising and promotion campaigns, market research, brands, contracts with major foreign retailer chains) figures most prominently as an inhibiting factor. Consequently, Greece is specialising in the production of 'saturated' products, not highly-demanded products (Galanopoulos, *et al.* 2006), explaining the decreasing shares in major markets (i.e. Germany, Italy, Netherlands etc.) and the shift towards lower income markets from Eastern Europe (i.e. Poland, Bulgaria, Russia, Romania etc.). Even in the domestic market, imported products from Spain, Italy or Turkey are gradually gaining market shares at the expense of domestic produce. Multiple retail chains in particular tend to import fruits and vegetables, but given the tendency of Greek consumers to shift from neighbourhood groceries and farmers street markets to super- and hypermarkets, the sector faces notable future threats.

That the GAS was for long time fragmented, ill-equipped and less market-oriented explains why it underperforms domestically and abroad. After the domestic market's opening in 1992, the presence of multinational players, manufacturers and retailers intensified competition and revealed the weaknesses of the domestic market and supply chains, forcing the domestic actors to adapt. Since then, the GAS is under transition. Essentially, how the domestic agrifood SMEs have responded to the imperative need to become competitive requires to be further investigated. Most SMEs used to be unfamiliar with practices of brand building, quality certification and traceability, along with market orientation. Particular issues are raised relating to how network linkages

help domestic SMEs to understand the sources of their uncompetitiveness and ways to escape their disappearance. This topic is of particular interest for this thesis. The following section explicitly discusses how the domestic agrifood SMEs have typically been organised in Greece. What kind of civil organisations have formed?

2.4 Organisation and Government Support of Agrifood SMEs in Greece

In this section, the main argument is that cooperation amongst Greek agrifood SMEs is very weak, especially for the food processing and distributing units, and established through 'bottom-up' procedures. For the food producers, i.e. farmers, there is a paradox, on one hand the number of farmer cooperatives is one of the highest in Europe, on the other hand, their vast majority struggles to undertake efficient processing and marketing activities to add value to their produce, and is limited in a credit-intermediary role between the farmers and the funding bodies (i.e. banks, the State or EU). This is primarily the result of the long intervention of the State in farmer cooperatives' organisation and operation with detrimental effects in their political autonomy, economic viability and social credibility. The State's protectionism and patronisation of farmer cooperatives have triggered a sequence of negative implications also for the rest of the GAS (e.g. market imbalance).

2.4.1 Cooperation amongst Greek agrifood SMEs

In other EU countries, agrifood SMEs have addressed some of the supply chain and marketing problems by developing networks and alliances with each other – i.e. by engaging in collective action. In Greece, by far the most popular form of collective action is the agricultural co-operative. There are over 6,900 such co-operatives with 782,000 members, totals which are amongst the highest in Europe (Table 2.5). These co-operatives span activities such as farm input supplies, product processing and marketing, and imports/exports. Most of the Greek PDO/PGI products are held by formally constituted co-operatives or co-operative unions (EUROPA, 2005).

Farmer cooperatives have a long history in Greece, starting in 1778 when under the Turkish occupation, the residents of the Ambelakia village and 22 neighbouring villages (around 6,000 people) in the Larissa prefecture, created a model of co-operation, solidarity and civic provision, which became famous as one of the first cooperatives in the world, called "Common Company of Ambelakia"¹³. It produced, processed, dyed and traded red threads (1780-1811).

There are other forms of civil organisations, which have been insufficiently studied to date (Pezaros, 2005). First, "Producer groups"¹⁴ of fruit and vegetables, as defined by the EU Regulation 952/1997. Their exact number in Greece is unknown, but rapidly increasing, usually operating within the farmer cooperatives. Second, there are eight "Inter-professional organisations" created on a product basis¹⁵, usually formed under the State's demand. These organisations aim to plan and apply developmental strategies, promote agreements among their members, form inter-professional regulations of operation and strengthen food safety and market-orientation. Third, there are "wine routes" and regional collective brands certifying high quality local products and services (Papadaki-Klavdianou *et al.*, 1999), for example the 'Wine Roads of Macedonia' (Karafolas, 2005)¹⁶. As data for the other types of collective action among agrifood processing or distributing units are not available, therefore, and given the number and dominance of farmers' cooperatives, the focus of the next sections is on describing and explaining the latter movement as a form of networking activity amongst Greek agrifood SMEs.

¹³ www.ambelakia.org/history_eng.php (27 December 2008)

¹⁴ "Producer group are spontaneous collective actions of producers, wanting to 'escape' cooperatives or work in a more flexible formula within existing farmer cooperatives, to provide an effective common solution to shared problems. Usually, these are formed by the most active members within existing cooperatives" (Vakoufaris *et al.*, 2007, p. 778).

¹⁵ Olive oil and Olives; Vines and Wines; Fruit-bearing trees and Horticultural plants; Honey and Beehive Products; Tobacco; Aviculture; Organic products; Vines and Wines of Crete

¹⁶ www.greekembassy-press.fi/files/Greekwine.pdf, (27 December 2008)

2.4.2 Structure of the Cooperative Movement

The farmer's cooperative movement is represented by around 6,919 cooperatives, 118 Unions and 25 centralised State-cooperative organisations operating on the basis of product sectors (Patronis, 2002)¹⁷. The "Panhellenic Confederation of Unions of Agricultural Cooperatives (PASEGES) coordinates and represents all the Greek farmer cooperatives. It is apparent that Greece has the largest number of cooperatives in the EU, with the smallest average number of members (under 100), where the organisational compartmentalisation and the fragmentation of actions prevail. The syndicalism movement of farmers comprises 6,500 agricultural associations, 80 leagues and 2 Configurations, GESASE and SYDASE representing the 'trade unions' of farmers of the left and right wing respectively (Pezaros, 2005). Both of these configurations rushed out of the cycles of PASEGES.

Table 2.5: General Statistics on EU Agriculture and Cooperatives

	<i>Year</i>	<i>Arg./GDP (%)</i>	<i>Agr./Labour (%)</i>	<i>No. of Co-ops</i>	<i>No. of memberships*</i>	<i>Turnover of Co-ops bill. ECU</i>
Belgium	1991	1,6	2,5	Not avail.	Not avail.	Not avail.
Denmark	1996	2,5	5,7	214	113000	12,1
Germany	1996	0,8	3	3950	3280000	39,3
Greece	1996	7,5	20,8	6919	782000	0,85
Spain	1996	2,7	9,8	4350	950000	6,3
France	1993	2	4,8	3618	720000	52,6
Ireland	1995	5,4	12	128	186000	9,56
Italy	1995	2,6	7,9	8850	1124900	16,45
Luxembourg	1995	0,9	2,8	25	100%	0,12
Netherlands	1996	3,2	4	251	273000	22,4
Austria	1996	2,2	13,3	1757	2182000	Not avail.
Portugal	1996	2	11,6	909	800000	1,27
Finland	1995	1,8	8,3	403	1228500	7,59
Sweden	1995	1	3,4	50	300000	8,24
UK	1995	0,9	2,2	506	271000	7,66

Source: van Bekkum and van Dijk (1997)

* Including double counting

¹⁷ www.eurofound.europa.eu/emire/GREECE/COOPERATIVE-GR.htm (27 December 2008)

2.4.3 Performance of Farmer Cooperatives

According to Galanopoulos *et al.*, (2006), the performance of the Greek farmer cooperatives has been hindered by poor management, financial scandals, and large debts, so their market share has dropped. The inability to undertake significant productive activities confines them to a credit-intermediary role (60%). Despite their significant infrastructures and large quantities of produce aggregated, only 4.3% are devoted to processing and/or marketing, building successful brands (Patronis, 2002), for instance the Zagora apple cooperative, the Dodoni dairy cooperative and the union of agricultural cooperatives of Sitia province in Crete. As van Bekkum and van Dijk (1997) stated, a limited number of Greek farmer co-operatives are engaged in downstream, value-adding activities: less than 30% of agricultural production is selected, marketed or processed through them. There is much evidence that existing co-operatives are weak in terms of differentiation, branding and other aspects of development of long-term marketing strategies (Oustapassidis *et al.*, 1993; Agricultural Corporatism, 2005). In the literature, the key reason given for the farmer cooperatives' underperformance is the State's intervention, which is explained below in historical phases. Given the prominent position of farmers' cooperatives in the GAS' supply chain, it is necessary to get in-depth insights into their different developmental phases, marked by either the State's intervention or certain historical events.

2.4.4 Role of the State Intervention in the Development of the Cooperative Movement

Having investigated the State's intervention in the cooperative movement, Patronis (2002) identified six periods:

First during the *1915-1920 period*, the first cooperative Law 602/1915 was introduced in 1915 and a number of supportive organisations created, leading to the expansion of farmer cooperatives. Second, through *the interwar period (1921-1939)* and the international recession, the state introduced a top-down institutional model by

establishing centralised State Organisations for collecting and managing domestic agricultural produce and inputs (e.g. fertilisers, seeds) at the national level. Additionally, it reduced farmer cooperatives to a credit-intermediate role between the banks (i.e. the National Bank of Greece –ETE, till the creation of the Agricultural Bank of Greece-ATE) and the farmers. In fact, the joint liability of farmers in the cooperative was abolished, while the banks' primacy over the elected representatives of the cooperatives was safeguarded, regarding the financial issues (Patronis, 1997). This paralysed the cooperatives' autonomous operation. Later, the triple occupation of Germans, Italians and Bulgarians *during the second WW and the civil war (1946-1949)* damaged the cooperatives hugely, since they were drained of capital and a dramatic decrease in social cohesiveness was observed, due to polarisation between leftists (especially communists) and rightists. Third, in the *post war period (1950-1973)*, the cooperatives were treated as appendages of the state administration, aiming to compress the agricultural sector for the benefit of the country's rapid industrialisation. The existing top-down model in the State-cooperatives-ATE relationships was kept. As a result, there was an exodus of 1.5 million rural people to cities and abroad. The reconstruction effort of farmer cooperatives was interrupted by the *dictatorship (1967-1973)* when the elected cooperative boards were removed and the cooperatives received direct orders. However, adjustments of cooperatives' debts were made partially in 1964, and later for the whole debt in 1967 by the dictatorship. The *post-dictatorship period of 1974-1980* was recognised as a new reconstruction period for the farmer cooperatives, with increases in prices and production volumes, and a gradual decline of rural population exodus (Kioukias, 1994). In fact, Greek farmers demanded a cessation of their status as 'non-privileged Greeks' or 'poor relatives' (Karabelias, 1989), forming a 'force for social change', which was compressed till then and found an expression under the political program of a new political party, PASOK (i.e. Panhellenic Socialist Party). Once again, the farmer cooperatives become politicized, contributing to the PASOK's election victory in 1981. For first time in the post-war period, the rural masses were pulled away from the dominant influence of the right political wing (Patronis, 2002).

The next *period of 1981-1990*, was characterised by dramatic changes. Particularly, Greece joined the EU. A number of consecutive institutional-legislative interventions¹⁸ were introduced. Consequently, an explosion in the farmer cooperatives' number and size occurred, benefited by a 230% increase in public subsidy during the period of 1982-1987, compared to the last five years (Patronis, 2002). Their role has expanded into the subsidies distribution to farmers, and implication of the EU agricultural policy measures (Louloudis, 1995). This thriving development was fuelled by the State, but it proved later to be less 'disinterested' than expected. In fact, its 'hidden' aims were first to replace the old rules of the electoral game within the cooperatives, replacing the old oligarchic model of personality authorities with a competition among political-party blocks. Second, it also aimed to restructure the cooperative movement, shifting from the existing 'top-down' model towards participatory procedures ('bottom-up'). In this way, PASEGES and farmers' unions were strengthening, and particularly predominant syndicalists appeared, who assumed their power thanks to massive mobilisation of the members of political blocks within the cooperatives. Third, the State intervention in the 1981-1990 period aimed to create homogenous cooperative structures across the country. Consequently, extensive party factionalism was observed, along with the overdependence of cooperatives upon the state. In fact, the farmer cooperatives were transmuted into 'decentralised state bureaus' and centres of clientelist relations between the farmers and political-party elites (Louloudis, *et al.*, 1995, p.140). Moreover, the farmer cooperatives undertook activities¹⁹ on behalf of the State, irrelevant to their nature, and were funded through procedures of disputed transparency²⁰ and verbal guarantees (Louloudis and Maraveyas, 1997). All these were launched (covered) as a kind of 'social policy', while the cooperatives' structural and operational deficiencies²¹ remained untouched and the co-operative members' education and training about co-operation principles remained poor (Papageorgiou, 2002). The emphasis was placed on

¹⁸ See the comment for the footnote 18 from Chapter 2 in the Appendix I

¹⁹ See the comment for the footnote 19 from Chapter 2 in the Appendix I

²⁰ See the comment for the footnote 20 from Chapter 2 in the Appendix I

²¹ For instance, dependence upon the state, obscurity between its economic and social role, limited productive activities

the syndicalism and party penetration, leaving the farmers with the impression of endless support from the State. As a result, cooperatives were encumbered with huge debts, and this kind of 'social policy' increased the GAS' imbalances, and decreased its integrity and commercial credibility. Moreover, unequal competition conditions were set between the private firms and cooperatives, or between the few market-oriented cooperatives and the rest. The missed market opportunities, along with the huge debts, made the farmers distrust cooperatives and collective action in general.

Since 1989, a public criticism and social/political debate started on the sources of cooperatives' indebtedness and the ways that farmer cooperatives could gain back their political independence, economic viability and social credibility. Finally, in the post-1990 period, farmer cooperatives faced dramatic economic challenges after the market opening in 1992. At the same time, the right political party (i.e. Nea Demokratia-ND) came to power during 1990-1993, and introduced a new cooperative Law 1982/90, which forced the disengagement of the ATE bank from cooperatives. Some partial adjustments of cooperatives' debts were made in 1990, 1994 and 1997. The social/political debate resulted in the first law (Law, 2810/2000)²² that has contributed significantly to the cooperatives' 'purification'. Particularly, it reflects the change in position of the State from a 'pro-farmer' to a consciously 'neural' attitude. In practice, it forced cooperatives to abandon their passive administrative-intermediary activities, and become autonomous. For the first time, farmer cooperatives were required to face alone their old (i.e. structural, institutional) and new (i.e. market competitiveness) challenges at once, without a transition period from the protected to the free market conditions. Two camps were formulated among the farmers, the 'modernists' and those demanding the continuation of the State protectionism. Despite the less interventionist stance of government, crucial barriers in the farmer cooperatives' development exist, including

²²The Cooperative Law (2810/2000) introduced principles followed by European cooperatives: (i) a common ballot, resulting in the abolition of the party lists; (ii) Separation of the elected officials from the administrative staff/management; (iii) Strengthening of the financial transparency of the cooperatives through external audits, and (iv) motives for wider amalgamations of cooperatives (Ministry of Agriculture, 1999)

the little guidance and training for cooperatives and agrifood SMEs on how to apply new organisational solutions, resolve common market problems and fill their gap in skills and competencies.

Overall, there is a long history of strong State intervention within cooperatives. It is partially explained by historical causes (e.g. periods of international recessions), but mainly reflects the will of each government to align the interests of a significant part of the population with its politics²³. That the Greek cooperative laws are the shortest-lived laws among the member states of the EU indicates the exceptionally high interest of each government on agricultural cooperatives, compared to any other form of legal economic organisation in Greece. Farmer cooperatives were forced to undertake “a ‘supplementary-assisting’ role against the needs of the state and of the private sector” (Lappas, 1990; Papadopoulos and Patronis, 1997; Patronis, 2002, p.11). This kind of intervention considerably hindered the development of Greek agricultural cooperatives, in terms of limiting their flexibility, innovation and autonomy, with detrimental implications for the whole GAS, given their central role in the agrifood supply chains. So far, despite their geographical and socioeconomic coverage, along with the highest public subsidies, farmer cooperatives appeared unable to contribute to the necessary restructuring and modernization of the GAS. It was revealed that the adjustment of cooperatives’ debts was used as a tool of agricultural policy to facilitate the farmers’ social integration into the wider socioeconomic system (Vergopoulos, 1975), mentioned as “the social character of adjustments of cooperatives’ debts”²⁴. However, the long-standing ambivalence between their economic and social role and its implications has been discussed openly since the late 1980’s. The prevailing argument alluded to by Patronis, (2002, p.24) is that farmer cooperatives’ failure is caused by “the manipulation of social policy needs for gaining electoral, political and socioeconomic benefits”. Given the strong tendency of the State to paternalise the farmer cooperatives, those few cooperatives that have a successful marketing activity, constitute subjects for further

²³ See the comment for the footnote 23 from Chapter 2 in the Appendix I

²⁴ See the comment for the footnote 24 from Chapter 2 in the Appendix I

investigation. How and why have these managed to (i) 'escape' the detrimental effects of the State's intervention, and (ii) respond successfully to the dramatic changes in the domestic market, proving their competitiveness? Alternatively, this notion of 'distrusting the failed farmer cooperatives' raises intriguing and complex possibilities regarding the general propensity of agrifood SMEs for collective action and networking. Thus, it may be possible to find agrifood actors who changed their networking behaviour due to past negative experiences from farmer cooperatives or others seeking alternative collective schemes, for instance cooperative enterprises or contract agricultural agreements.

2.5 Implications for the Current Study

This Chapter has drawn from broad literature to review the current status of the GAS and the role of SMEs within it. Prevalent forms of collective action and networking activity have been also described, in particular farmer cooperatives. Overall, the selection of the GAS as a valuable choice for investigating SMEs' networking activities has been confirmed. Particularly, SMEs prevail in the GAS, and its context plays an evident role in the development of farmer cooperatives as the predominant example of networking and collective action of Greek agrifood SMEs. The review has formulated questions for further research, demonstrating that the levels and potential of collective action and networking behaviour in Greece, beyond the farmer cooperatives, are under-researched. These key questions are summarised below and constitute further refinement of the thesis' research objectives. As stated in the opening Chapter, the research objectives are: *(i) to describe the key features and trace the evolution of SME networks; (ii) to identify the key factors influencing this evolution and (iii) to explain how the context and features of these SME networks impact on the performance outcomes of individual SME members, and the networks as whole entities*. Within these, it will be intriguing to also investigate the following inquiries:

- Given the problematic Greek agrifood context, why is it that some SMEs and collective schemes are successful? How have they reacted differently to the

context challenges (e.g. intensified competition, illicit trade, the State's intervention creating market imbalance etc.)?

- What structure and governance have these agrifood SMEs' network/collective schemes (including the farmer cooperatives) formed? To what extent do SMEs' survival and success depend on the aforementioned structure and governance? For instance, do the networks/collective schemes play a role in how SMEs identify the challenges and the proper ways to respond to them?
- Apart from cooperatives, what other forms of networking have Greek agrifood SMEs tried? Do these represent a bottom-up process? Are there problems in establishing these alternative forms of collective action?
- What impact do past experiences of failed cooperative movements have on SMEs' perceptions of cooperation and networking?
- How do Greek agrifood processing and distribution units network? What is their reaction to the pressure of unequal market conditions due to the State's protectionism of farmer cooperatives?

In addition to these subject-related questions, in this Chapter methodologically, the literature reviewed makes particular suggestions for the research design. For example, it suggests that a fieldwork project seeking to investigate networking activity amongst Greek Agrifood SMEs should focus particularly on:

- Fruit/vegetable produce sector rather than livestock, because the ratio of respective total production values for the GAS' is 70-30.
- Cooperatives and non-cooperatives, e.g. private firms and cooperative enterprises, because cooperatives constitute the prominent, but not the only form of networks that Greek SMEs establish.
- Successful cases versus less-successful ones, to understand why most members of Greek SME networks are not deriving the efficiency benefits normally associated with collective action
- Qualitative methods, since the phenomenon of SME network evolution is complex and little knowledge exists, especially in the GAS' context,

- Not only farmers, processing and distributing units, but also non-supply actors e.g. links to the State and public agencies, because it is evident that the Government's intervention has considerably influenced the development of Greek agrifood SMEs' networks

Finally, the literature reviewed in this Chapter also indicates that in an empirical study of networking activity amongst Greek agrifood SMEs, it is necessary to do the following:

- To include the network *context* in the research, with particular reference to market structures and forces, the State, legislation, existence or not of supportive agencies and mechanisms to agrifood SMEs, due to the prominent influence of the Greek State's intervention on the development of the cooperative movement
- To check possible behavioural factors for explaining why some SMEs or actors of collective schemes behave differently, e.g. leadership, cooperative spirit and degree of market-orientation, because evidence is mixed over these behavioural conditions in the GAS.

Having reviewed the literature relating to agrifood SMEs in Greece, the thesis now goes on to consider how, in theory, SME networks evolve, and what factors influence their performance. This is the subject of Chapter 3.

Chapter 3. SME Networks: Evolution and Performance

3.1. Introduction

This thesis comprises an investigation of SME networks, how and why these evolve, and the implications for the performance of individual firms and networks as a whole. The purpose of this Chapter is to capture and synthesise the essence of theoretical contributions that inform us about SME networks, their evolution and performance. It points out under-researched areas, which drove the research objectives of this study.

The Chapter proceeds as follows. First, a section describes SMEs' characteristics and performance issues. The second section discusses in detail the characteristics of networks, and presents the theoretical underpinnings, operational issues, evolution and their effect on SME performance. The third section reviews contextual factors influencing network evolution and concludes with a summary of theoretical propositions. Next, an overview of network features influencing performance is given, together with a summary of theoretical propositions. Finally, a novel framework designed to classify contextual factors, network features and performance is proposed.

3.2. SMEs: Characteristics and Performance Issues

3.2.1 What is an SME?

SMEs may be defined according to the EU recommendation number 2003/361/EC²⁵ which takes account of the number of employees, annual turnover, annual balance sheet and independence (Figure 3.1). An enterprise is classified as small and medium-sized when it has fewer than 250 employees and its annual turnover and /or its annual balance sheet total does not exceed 50 million Euros and 43 million Euros respectively.

²⁵ http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm, 27 December 2008

Figure 3.1: Definition of SME

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million (in 1996 € 40 million)	or	≤ €43 million (in 1996 € 27 million)
Small	< 50	≤ €10 million (in 1996 € 7 million)	or	≤ €10 million (in 1996 € 5 million)
Micro	< 10	≤ €2 million (previously not defined)	or	≤ €2 million (previously not defined)

Source: (Europa, 2003)²⁶

3.2.2 Performance Issues of SMEs

In the literature, it is argued that compared to large firms, SMEs face certain performance-related problems which result from inherent features of their small size. First, the lack of scale (Baum, 1996) combined with certain resource constraints, especially time, finance (Hudson *et al.*, 2001; Lu and Beamish 2001) and human resources, create constraints such as limited marketing activity (Carter and Jones-Evans, 2006), ability to employ expertise (Weinrauch *et al.*, 1991; Barrow, 1993) and impact of marketing efforts (Carson, 1985). For example, SMEs are observed to have limited product portfolio (Cosh and Hughes, 2000) and customer base (Storey 1982; Hall,

²⁶ http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide.pdf (13 April 2005)

1989), usually spread in a restricted geographical area (Curran and Blackburn, 1990). Consequently, SMEs' fortune seems tied to the cycles of local economies (Carter and Jones-Evans, 2006).

Second, SME managers appear to follow a personalised style, where they know all employees personally, and make alone all key management decisions (Scholhammer and Kuriloff, 1979). The dominant influence of the owner-manager in SME results in a lack of strategic formalised planning (Carter and Jones-Evans, 2006), prevalence of an operational orientation (Cromie, 1990), and prevalence of intuitive and reactive marketing that prioritises short-term considerations (Fuller, 1994), as well as a 'survival' mentality (Hankinson *et al*, 1997). The personalised management style exposes SMEs to greater uncertainty, and higher fixed management costs as the owners-managers may lack the necessary 'skill-set' (Carter and Jones-Evans, 2006).

Furthermore, the lack of good market information or marketing expertise (Rocks *et al*, 2005) makes SMEs dependent on their owner-manager's marketing competencies (Carson *et al*. 1995), explaining why SMEs' performance varies widely. Empirical evidence suggests that SMEs tend to have a relatively small market share, be price 'takers' rather than 'makers' (Bolton, 1971), and face difficulties to defend and fully capitalise on their market niches` (Cannon, 1992).

Networks have been recognised by both SME managers and policy makers as a way of enhancing performance and overcoming some of these problems. According to Donckels and Lambrecht (1997, p.13), 'the fragility which accompanies small size can be offset by the supportive environment provided by resilient networks'. Through networks, SMEs manage better competitive uncertainty and resource interdependence (Pfeffer and Nowak, 1976; Perrow, 1993; Madhavan *et al*, 1998). Networks "balance the flexibility of markets with the predictability of traditional hierarchies" (Borgatti and Foster, 2003, p. 995). Clearly, value-adding partnerships constitute a competitive strategy for SMEs (Fearne, 1996; 1998; Wierenga, 1996; Fearne and Hughes, 1998; 1999; 2000; Fjeldstad

and Ketels, 2006) and influence their performance. This thesis further investigates the impact of networks, because it seems to have not only commercial and policy-relevant implications but also theoretical ramifications. The next section gives the definition and characteristics of SME networks. It also draws together the main findings of studies on clusters, industrial districts and entrepreneurship regarding the impact of networks on SMEs' performance.

3.3 SME Networks: Characteristics and Performance Issues

3.3.1 What is an SME Network?

Despite the broad range of definitions, the general premise in the literature is that a network constitutes a coalition between autonomous but interdependent actors who pursue repeated exchange relations, based simultaneously on coordination and cooperation (Assens 2003). Networks are regarded as modes of regulating inter-firm interdependency, distinguished from markets or hierarchical forms, because of their reliance on stronger trust, rich information exchange, and joint problem-solving arrangements (Whitford, 2005).

Interfirm relationships and networks in the form of non-market relationships between firms have always existed. Marshall (1898; 1919) first noticed their impact in certain regions and called them 'industrial districts'. The term network started to be commonly understood and used since the 1980's, and social and business networks constitute a developing field of study that has spanned many disciplines including economics, sociology, geography, psychology, computer science and communications. Empirical examples of network governance include industrial districts, consortia, clusters, joint ventures, strategic alliances, franchising, partnerships, and wine routes (Grandori and Soda, 1995; Brass *et al.*, 2004). For instance, according to Grandori (1997), industrial districts constitute SME networks characterised by geographical and cultural proximity, inter-firm cooperation and competition, as well as flexible sectoral specialisation. These

features originated from the dominance of small firms, and the existence of intra and inter-firm trust. Inter-firm trust works as a coordination mechanism, and permits horizontal imitation, personnel mobility and constant technological/organisational innovation. Also, local government and institutions are found to be active in industrial districts.

3.3.2 Theoretical Foundation of Business Networks

Given the great number and diversity of business networks that exist, what are the theoretical explanations for their existence? Broadly, the literature focuses on one of two themes: costs or resources. Regarding costs, the economic theory of Transaction Costs (TCA)²⁷ argues that networks reduce governance and transaction costs more than bureaucratic mechanisms (hierarchies) or price mechanisms (markets). Regarding resources, networks are argued to address problems not only of resource dependency (Resource Dependency theory²⁸), but also of heterogeneity, imperfect imitability and substitution of resources. The Resource-based theory of the Firm²⁹ supports the argument that the aforementioned problems create the potential for firms to specialise their distinctive resources, and therefore generate a competitive advantage (Ostgaard and Birley, 1994; Sandberg and Logan, 1997). Furthermore, empirical evidence reveals the unique capabilities of SME networks to (i) create economic opportunities such as

²⁷The variables used in TCA theory (Williamson, 1979; 1991; 1996) explaining key dimensions of transaction were the following: asset specificity, uncertainty, transaction frequency; human behaviour assumptions; bounded rationality, opportunism, and risk neutrality. The problems that firms face are safeguarding, adaptation and performance evaluation. Bureaucratic mechanisms (i.e. hierarchies) are proposed as a substitution of price mechanism (i.e. markets) on the basis of transaction efficiency, in other words minimum Transaction Costs (TC). If TC are high, then firms (i.e. hierarchies) become more cost-effective.

²⁸ Resource Dependency theory (Pfeffer and Salancik, 1978): Firms are not self-sufficient regarding critical resources. It introduces uncertainty since other firms control/power these resources, which is reduced only through long-term relationships.

²⁹ The basic unit of analysis is resources and capabilities. Wernerfelt's article "A Resource-Based View of the Firm" (1984), originates from Penrose's (1959) argument that a firm is a bundle of distinctive resources that can provide competitive advantage (Teece, 1982; Collis, 1994). The resource heterogeneity assumption (Grant, 1991; Wright *et al.*, 1994) states that key features of resources generating a sustainable competitive advantage are: value, rareness, inimitability and substitutability (Barney, 1991). These criteria are individually necessary, but not sufficient conditions. In practice, the chain is as strong as its weakest link is.

increased bargaining power and external organisation legitimacy (Sharfman *et al.*, 1991; Baum and Oliver, 1991; 1992; Podolny and Page, 1998; Provan and Kenis, 2008); (ii) create “virtual” scale economies (Boudreau *et al.*, 1998); and (iii) encourage novel synthesis of ideas³⁰ and information by facilitating exchange of tacit knowledge (Powell and Brantley, 1992; Inkpen 1996; O’Reilly, 2003; Håkansson, 2005). Such capabilities “are difficult to replicate via markets, contracts or vertical integration” (Uzzi, 1997, p.37).

Grandori (1995) summarises the core variables that explain the efficiency of networks over markets and hierarchies, including the reduction of production costs (e.g. economies of specialisation and experience; economies of scope or scale), the reduction of governance costs, transaction cost-efficiency, pareto-efficiency and the fairness of devised arrangements sources.

In terms of types of approach to the analysis of networks, two main streams of literature can be identified (Beije and Groenewegen, 1992). First, the structural approach, also called Social Network Analysis (SNA) which originated in America. Second, the interaction approach, associated with the works of the Industrial Marketing and Purchasing (‘IMP’) Research Group, and which originates in Europe.

SNA uses the network structure as the unit of analysis, assumed to be a more powerful explanatory tool than individuals’ attributes. A network structure is composed of ‘nodes’ (e.g. organisations or individuals) which are related by connections (‘threads’) of different natures and each node has a specific position which may evolve and which denotes the specific role of the entity vis-à-vis the other network members (Thorelli, 1986). Individuals are presumed to act accordingly to their position in the network structure, rather than through personal choice. The position affects both individuals’ action and opportunities. Moreover, action itself is seen as purposive, almost denying spontaneity. SNA has a quantitative orientation, producing a range of structural,

³⁰ These are the outcome of the collective investment of resources (O’Reilly, 2003).

quantitative measurements such as density, centrality, multiplexity and clique analysis (see review of Provan *et al.*, 2007). SNA contributes to our understanding of dynamics in social networks, introducing concepts such as *strong* and *weak ties*, *structural holes* and *social embeddedness*. In particular, smaller, tighter networks are argued to be less useful to innovation-seeking actors than networks with lots of loose connections to individuals outside the main network (“weak ties”), who are more likely to introduce new ideas and opportunities (Granovetter, 1973). Weak ties are presumed to stimulate change while strong ties e.g. close workmates, friends and relatives, stabilise relationships. Besides, individuals can exercise influence or act as brokers within their social networks by bridging two networks that are not directly linked. This is called “filling” the structural holes (Burt, 1992). Granovetter (1985) also introduces the concept of *social embeddedness*, recognising the on-going contextualisation of economic exchange in the structure of social relations. As Uzzi (1997, p.37) explains ‘actors shift their focus from the narrow economically rational goal of winning immediate gain (maximum price) and exploiting dependency to cultivating long-term cooperative ties’. Thanks to reciprocity, actors gradually obtain a mutual orientation, and are willing to make relationship-specific investments, which it is expected the other party will not take advantage of.

The interaction approach, followed by the IMP group, views the relationship established by the repeated exchanges of industrial buyers-sellers as the unit of analysis. Previous experiences and interactions of both active parties and expectations for future business are assumed to affect this relationship. The active engagement of firms in repetitive interactions is found to require exchange and adaptation, commitment and time before any profit is achieved (Ford *et al.* 2002). The underlying assumption is that resources are heterogeneous and their value is not given but created within the buyer-seller interaction. The interaction approach favours qualitative methods. Its contribution starts with the A-R-A model (Håkansson and Johanson, 1985; Håkansson, 1987), which introduces three overlapping parallel network structures (i.e. inter-connected network layers) of Actors, Resources and Activities, and explains the multiplexity of links between these three

structures (Håkansson and Snehota, 1995). Specifically, actors perform activities and control resources. Activities³¹ transform resources and are used by actors to achieve goals. Finally, resources give actors power and enable activities. Furthermore, existing interdependences (Lazzarini *et al.*, 2001) are expressed through bonds between actors, links between activities and ties between resources, but they may vary in time, intensity and direction (Håkansson and Snehota, 1995; Sutton-Brady, 2008). The A-R-A model was later incorporated into the model for managing networks proposed by Ford *et al.*, (2002), which analyses the complex interconnections between three broader elements that are examined along the three A-R-A dimensions: (i) networking³², (ii) network pictures³³ and (iii) network outcomes³⁴. In conclusion, networks are argued to be broad and complex, therefore attribution of causality seems meaningless. Overall, the interaction approach reflects the reality of repetitive (connected) long-standing business transactions, in which each industrial market is embedded, and also the simultaneously stable and dynamic character of these transactions (Håkansson and Snehota, 1995).

Overall, the structural approach examines how the existing structure of network linkages forms the participants' choices in relationships. The network structure appears to create both constraints and opportunities. Despite reference to the dynamic character of networks however, the structural approach obscures the complexity and dynamics of network processes (Todeva, 2006). It reduces relationships to a link rather than a dynamic process, and except for mentioning symmetry and strength of ties, it ignores

³¹ Activity is defined as the participation in events and performing business functions within the supply chain, and differs from individual behaviour as the network actors establish a framework for collective participation and cumulative outcomes

³² Networking is discussed in terms of the three paradoxes proposed by Håkansson and Ford (2002); Ford *et al.*, (2002; 2003); Ford and Redwood (2005) (Section 3.3.3)

³³ Network pictures are defined as views of the network held by each participant. These views constitute the basis for its perceptions of what is happening around, forms its actions/reactions, and depend on its own earlier experience, relationships and position in the network. These views are affected by its problems, uncertainties and abilities and by the limits to its knowledge and understanding. Also network pictures provide the frame within which performance is assessed.

³⁴ Regarding *Actors*, network outcomes were examined for a single actor, for a single relationship, and for the whole network. Regarding *Resources*, network outcomes are referred to the utilisation of resources and development of unique ones. Regarding *Activities*, outcomes are referred to changes in the network structure, including: Aggregation, Dis-aggregation, Intermediation, Dis-intermediation (Ford *et al.*, 2002; 2003).

variety in relationships and actors' heterogeneity. Sociologists belonging to the structural approach, via the social embeddedness concept, highlight that structures themselves need to be seen as outcomes of past and existing social relationships. In a way, social embeddedness argues for a shift of emphasis from the structure of ties to the behavioural orientation of actors, underlining that actors want to satisfy not only their economic goals but also social goals/expectations. It signposts that more research is needed at the level of relationships (e.g. dynamic, interdependent, embedded), investigating how these relationships form the existing or future structure and content of network ties. This research gap is addressed by the interaction approach, which not only analyses the relationships in three inter-connected layers (the A-R-A model,) but also gives a multiple perspective, including perception (i.e. network picture), action (i.e. networking) and outcome, when it explains the dynamic character of relationships. The main criticism of the ARA model is that it is voluntaristic rather than deterministic, which makes it difficult for hypothesis testing and mathematical modelling (Todeva, 2006). However, more systematic research is needed at the levels of network and actors in parallel. Both the structural and interaction approaches note that networks evolve, but they do not address the following specific issues: (i) the influence of the context (e.g. market, legislation, policy measures etc.) in which a network is embedded; (ii) the evolution of the network governance mechanisms along with the evolving structure; and (iii) the assessment of performance outcomes not only at the level of the individual actors, but also the entire network, from the supply side. Investigation of these issues is the aim of the current study, which takes a more holistic approach of analysing simultaneously the context, the network structure, governance and performance, seeking to understand the interplay between these four elements. So 3.3.2 introduced the theoretical foundations of business networks, reviewed literature that explains what business networks are, why they exist and how can be researched/analysed effectively. May get impression that business networks are fundamentally positive phenomena, and their operation is unproblematic. In fact, there are several issues with business network operation that do pose problems and complexities. These are introduced in the next section.

3.3.3. Issues and Problems of Business Network Operation

This section aims to give an overview of the observations of business network nature as provided by researchers from both the aforementioned theoretical foundations. It reveals that business networks are complex and that their operation can be potentially problematic. The section also refers to a debate in the literature on how distinct business networks are, and concludes with a series of tensions/paradoxes for both network managers and members, that were detected in business operation.

Observations of business network operation revealed that networks consist of autonomous but interdependent actors who actively engage in repetitive exchanges, and interaction, seeking solutions to their problems. This kind of interaction involves simultaneous elements of cooperation, conflict (Beije and Groenewegen, 1992), integration and separation. Interdependence among actors, activities and resources is a fundamental element of networks (Lazzarini *et al.*, 2001), since the myth of self-sufficiency is challenged. These interactions and exchanges as short-term episodes contribute through routinisation, institutionalization, and adaptation to the development of a long-term orientation in the relationship. Relationships are not self-runners (Walter, 1998), do not come free of costs (Ritter and Gemunder, 2003). Firms have to invest money, resources and time to make them work. Therefore, relationships are purposive, mainly created to fulfil an economic function. However, because relationships are socially embedded, in order to flourish, first they need to satisfy social expectations of reciprocity and mutual trust. A relationship has an atmosphere described in terms of the power-dependence balance, the state of conflict or cooperation, overall closeness or distance and mutual expectations. Inter-firm relationships and network configurations are dynamic (Gadde and Mattsson, 1987; Easton and Lundgren, 1992; Andersen *et al.*, 1994; Håkansson and Snehota, 1995) “living, ever-changing relationships”, where the actors’ strategic choices are path/history dependent. What flows through a relationship i.e. explicit or tacit knowledge and social energies enhancing goal achievement (e.g. trust, courage, determination, commitment etc.), matters (Ambler and Styles, 2000),

because it influences the evolution of network linkages. Thus, the evolution cannot be fully-planned and predicted. Besides, networks do not necessarily need a 'leader' or 'captain', since they can work as self-organizing systems (Ritter and Gemunden, 2003). When such leaders exist, they are called 'strategic networks' (Jarrilo, 1998). So networks can exhibit features such as flat hierarchy, voluntary participation, self-governing teams, heavy use of temporal structures (e.g. project teams), and lateral communication (Birkinshaw and Hagstrom, 2000; Hales, 2002; Borgatti and Foster, 2003). The diversity that characterises networks in terms of their structure, governance, and outcomes is evident. Networks are of a different type if seen from a different perspective, but no absolute or objective network types³⁵ and no single network exist (Ford and Rewood, 2005).

The boundaries of a network are effectively artificial, since their definition depends on both purpose and starting point of analysis (Ford *et al.*, 2002). It is difficult to provide a complete description of a network, due to the fact that no company owns or manages it, although some try to do so, or have the illusion of control. Networks do not have a centre, despite the belief of some companies that they have a central role. Ford *et al.*, (2002, p.23), stated that "each company has limited knowledge and operates on the basis of an evolving, but subjective 'network picture'". Such inadequate knowledge means that a crucial aspect of networks is the principle of 'learning by doing' (Balakrishana and Koza, 1993; Mody 1993; Gulati *et al.*, 1994; Gulati, 1995; Powell *et al.*, 1996).

The freedom of all companies to act in the network is restricted, because they need to take account of others' expectations, reactions, goals, capabilities. Seeing things, also from the perspective of others is a necessity, not an option (Håkansson and Ford, 2002). The aforementioned observations of the business network operation triggered a long lasting debate in the literature about how distinct business networks are. One stream of researchers urge that networks are an 'intermediate' or 'hybrid' organisational form between the two pillars, markets and hierarchies/firms (Thorelli, 1986; Williamson

³⁵ Ford *et al.*, (2002, p.3) note that "any view of a network centred on a single company, or defined by the company itself is inevitably restricted and biased and gives an incomplete view of the world surrounding that company."

1991). This thesis is rejected by researchers claiming that business networks constitute a 'third-type' organisational agreement, with its own distinctive properties³⁶, worthy of study in its own right (Bradach and Eccles, 1989; Powell, 1990, p.79). For example, networks possess unique structural features, as well as modes of conflict resolution, bases of legitimacy etc. (Jones et al. 1997; Blundel and Smith, 2001; Provan and Kenis, 2008). Finally, the second argument predominated.

Research from scholars agreeing with the unique nature of networks reveals a series of tensions (which could also be considered as 'trade-offs') for both the network managers and members, sometimes described as paradoxes. Overall, an understanding of the balance between collaboration and competition, between 'exploring' and 'exploiting' is essential to any explanation of actors' networking choices. Particularly, some scholars from the IMP group (Håkansson and Johanson, 1992; Håkansson and Ford, 2000; Ford *et al.*, 2002; Ford and Redwood, 2005) present three paradoxes faced by individual organisations (i.e. members) when participating in a network. The first one relates to the choices firms make within existing relationships, specifically where a firm's relationships not only form the basis of its existing activity and subsequent development, but also play a role in actually limiting development. The freedom to act is restricted by the need to consider the potential reactions of others (Ford *et al.*, 2002). So, firms face the dilemma of *confronting or conforming* to the existing ways of operating when they are part of a network (Ford *et al.*, 2002). The second paradox pertains to firms' choices about network position and suggests that a firm both defines and is defined by its relationships. A firm faces the dilemma of either *consolidating* its existing network position by stabilising its existing relationships and improving their efficiency and effectiveness or *creating* a new position by combining the relationships differently or building new relationships (Ford *et al.*, 2002). This choice can be problematic, when firms underestimate their dependency on others' resources, capabilities and commitment, as well as any cost and difficulty of changes initiated. The third paradox

³⁶ In Appendix I, Table 3.1 presents the distinctive characteristics of markets, hierarchies and networks as summarised by Powell (1990).

refers to a firm's choice of control of network linkages. The intense ambition of a firm to control its inter-firm relationships, in order to reach its own targets could be destructive. So, the dilemma of *coercing* partners or *conceding* to the plans of others, exists (Ford *et al.*, 2002). Put simply, the less a single firm forces its thinking onto the network, the more freedom is given to other firms to take initiatives and be creative (Tunissini, 1997). Thus, a balance between controlling and being controlled is needed, since the change of a network to a kind of hierarchy makes the leading firm the only true source of innovation, and results in any limitations of the leading firm affecting the whole network.

Overall, the conclusion derived from the three aforementioned paradoxes is that change in networks is an interactive process, therefore only by analysing other's resources, limitations, motives and expectations, one company could introduce others to the picture of intended change in direction, and motivate them to act and accept incurred costs and effects (Ford *et al.*, 2002). Moreover, Håkansson and Ford, (2002) note that a firm can only achieve change through its network, while the development of a relationship is driven by the more committed party and is forced to move slowly by the less committed party.

Provan and Kenis (2008) offer additional tensions or conflicts that exist in the operation of business networks by shifting the emphasis on three network-level tensions for network managers (Milward and Provan, 2006). The first conflict identified by them is *flexibility versus stability*. The former ensures rapid network responses in ways that meet changing stakeholder needs and demands, while the latter secures consistency and efficiency in responses (Provan and Kenis, 2008). Governance structures of business networks that satisfy equally both flexibility and stability requirements are difficult to develop. The second tension refers to *efficiency versus inclusiveness*. Administrative efficiency (e.g. consistency, productivity) in network governance is equally important with a satisfactory level of democracy in its structures and processes. However, increasing the number of involving participants makes the network decision-making more difficult, due to the increased level of time and resources needed. Third, it is the

issue of *internal versus external network legitimacy*. Internally, if network members do not legitimate interactions and coordinated efforts as economically and socially beneficial, the network risks existing in name only, with little real commitment by participants to network-level goals and outcomes. Externally, a business network needs to build its credibility and “public image”. It needs to be recognised by outside groups such as customers, funders, future partners and the government, so it can be seen as an active and productive entity in its own right, rather than simply a group of firms that occasionally gathers and shares concerns. Tension arises when the internal legitimacy needs of network members conflict with the external demands. For example, network managers may prioritise collective network goals, but not necessarily the individualistic legitimacy concerns of members. Thus, participants may feel excluded or that their credibility is being undermined (Provan and Kenis, 2008).

Importantly, literature pertaining to the tensions and paradoxes of business networks serves to highlight the importance of understanding the distinctiveness of network nature compared to markets and hierarchies in explaining the inherent complexity in business network operation, the diversity in forms and relationships, and the unique challenges that both network managers and members face. Practically, it facilitates empirical research in identifying networks’ features in the field. Having introduced some of the problems and complexities in business network operation, it becomes apparent that networks are not static phenomena, but change over time. Moreover, these tensions and paradoxes demonstrate that change in networks is socially constructed, and takes time to be extensively communicated and implemented. So, there is a need to relate the change emerging at the dyadic relationship level with that observed at the network level. The next section both addresses this issue and explains how network evolution is linked with a parallel evolution in actors’ network perceptions, previously defined as “network pictures” by Hankansson and Ford (2002) in their model for managing networks.

3.3.4 How do Business Networks Evolve?

Given the complexities and problems in business network operation, this section presents the key insights from the literature regarding how networks evolve, in particular how network processes and the actors' perceptions of them change over time.

Investigating actual change processes in network linkages, Batonda and Perry (2003, p.1458) reject the determinist approach taken by some 'life cycle' (Utterback and Abernathy, 1975; Porter, 1980; Quinn and Cameron, 1983; Easton et al., 1993) or 'growth stage' models (Ford, 1980; Dwyer et al., 1987; Larson, 1992; Kanter, 1994), arguing that network evolution "occurs in an unstructured and unpredictable manner at any point at time". To address the question of how business networks evolve, this thesis adopts the perspective of Halinen et al., (1999). According to them, change always emerges at the level of dyadic relationships, which function not only as generators, but also as receptors and transmitters of change to other connected relationships causing a 'domino effect' (Hertz, 1999; 2001). This relates the change emerging at the dyadic relationship level with that observed at the network level. They borrow the punctuated-equilibrium paradigm of change (Gersick, 1991), referring to persistent underlying structures (*deep structures*), i.e. all the existing 'choices' of network actors' bonds, activity links and resource ties. Long *periods of stability* (equilibrium), where these deep structures persist and only incremental changes and adjustments happen, are punctuated by brief *revolutionary periods*. In the latter, sudden and frame-braking changes trigger reconfiguration of the deep structure, i.e. breaking of actor bonds, activity links and resource ties. Such destruction is experienced by actors as a period of disarray, uncertainty, and discomfort (Salmi, 1995), related to high switching costs (Turnbull et al, 1996), until the "choices" for the new deep structure are made. This explains why both organisations and individuals tend to stick to their previous "choices", seeking stability and creating rigidity in networks (Håkansson, 1982; Easton, 1992). Halinen et al. (1999) expand the punctuated-equilibrium paradigm by introducing two more concepts: *inertia* and *critical events* (e.g. entrepreneurial and strategic actions, economic

recession, merges, bankruptcies, partner-switching, technology breakthrough). Their argument is that business-network evolution is dominated by two conflicting circles of change: the *incremental change circle*, stemmed from inertia, the tendency to preserve the deep structures, and the *radical change circle*, prompted by critical events. These change circles start always within a single dyadic relationship, and are either confined there or spread to other connected relationships, becoming a network-level change, either incremental or radical. A transfer from the one circle to the other occurs, however

‘Whether a revolutionary period is started or not depends ultimately on the actions and intentions of the companies in the network. It is not the mere event itself that is critical but the way the parties of a focal and other dyads react to it. A critical event is the impulse that allows tensions to be released and the network to reconfigure. It may be the ‘last straw’ in a series of developments that finally leads to major company actions. ...the seeds of the change may have been sown some time ago and the pressure for radical change evolved during a long but seemingly stable period of incremental change. (Halinen et al. 1999 p.786)’

Overall, for considering an event critical, the connected actors’ perceptions, interpretations and intentional behaviour do appear to be decisive, while radical changes may have their origins in incremental adjustments during periods of stability. Furthermore, it may be asserted that industrial reality is ‘continuously and socially’ constructed (Berger and Luckmann, 1967).

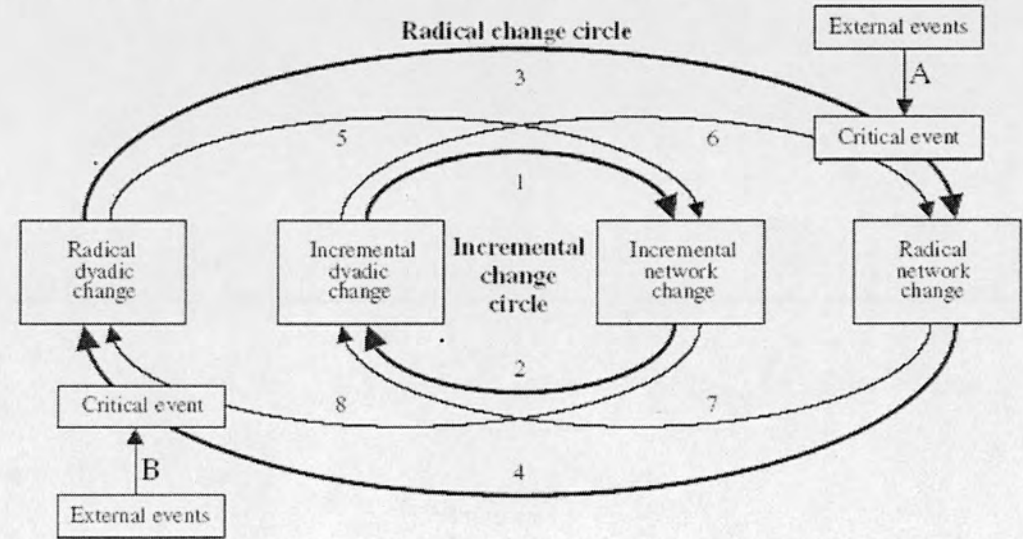
What shall become apparent in this discussion is that the network evolution is accompanied by a parallel evolution in the actors’ perceptions (Halinen et al., 1999), particularly how they view the business network, its context and their interdependencies, in terms of the potential array of options³⁷ and the necessary resources to exercise these options³⁸, to achieve their goals in this context. For example, empirical evidence suggests that environmental forces are always interpreted as (materialised into) a stream of particular critical events influencing their dyadic inter-firm relationships, rather a general external force, and as such they are transmitted within the channel (Håkansson and Johanson, 1993; Nohria, 1992). However, scholars agree that surprisingly little

³⁷ Defined as Uncertainty (Koka et al., 2006)

³⁸ Defined as Munificence (Koka et al., 2006), an index of environment’s capacity to support the firm and its strategies

knowledge exists about both evolution processes of network and actors' perceptions of it, also how and if network evolution is managed (Milward and Provan, 2006). Clearly, there is a need to increase 'cross-fertilisation across process- and outcome-oriented research' (Hoang and Antoncic, 2003 p. 168) and investigate which certain network conditions lead to various network outcomes³⁹. It is clear from this section that the way the network actors perceive an event and react to it dramatically affects, and is affected by network evolution. Therefore, the evolution processes of a network and actors' perceptions of it are dynamic, and need to be investigated together in order to understand better the complexities and problems in business network operation. Building on the exploration of the two key constructs, conditions and outcomes, the following section gives an overview of network impact on SMEs' performance (outcomes), capturing both positive and negative effects.

Figure 3.2: A Framework of Change in Networks and Dyads



Source: (Halinen *et al.*, 1999)

³⁹ Called differently 'network functioning' (Provan and Kenis , 2008)

3.3.5 Effect of Networks on SMEs' Performance

The aim of this section is to present what the existing literature indicates about the influence of networks on SME performance, in particular whether network involvement enhances or restricts the performance of firms.

Positive effects of networks for SMEs proposed in the literature include the enhancement of survival and financial performance (Bruderl and Priesendorf, 1998). Except for the capital (Zimmer and Aldrich, 1987), entrepreneurship scholars investigate the role of networks to access intangible resources, highlighting diverse market information, advice and know-how (Singh *et al.*, 1999), as well as the emotional support for risk taking (Bruderl and Priesendorf, 1998; Hoang and Antoncic, 2003) that increases persistence to remain in business (Gimeno *et al.*, 1997). According to Uzzi, (1996), over time firms become a growing "repository of information", as they join different sets of market players through networks, and are exposed to a wide range of opportunities and constraints (Gulati and Gargulio, 1999). Deeds *et al.* (1997) showed how entrepreneurs gain legitimacy when collaborating with well-regarded firms of the sector, and so become attractive to potential investors, employees and customers, as a more secure choice. Strong ties at the earlier stages are "valuable as ready, low-cost links to critical resources" (Hoang and Antoncic, 2003 p.174) and give the market 'entrance ticket'. Inter-firm relationships seems to have not only reputational, but also signalling content (Calabrese *et al.*, 2000) by indicating new areas of market opportunities, and attracting other entrepreneurs. "Virtual" economies of scale through subcontracting production parts to competitors (Boudreau *et al.* 1998), and novel synthesis of ideas by facilitating systematic meetings and exchange of tacit knowledge among trustful partners (O'Reilly 2003), constitute two more positive network effects.

A concise categorisation of network effects is the typology of network performance outcomes offered by Human and Provan (1997). They identify two types of positive outcomes resulting from SMEs' engagement in business networks: economic, called

transactional and non-economic, called *transformational*. First, transactional outcomes are defined as enhanced resource acquisition and gains in performance of SMEs participating in a network. In particular, the empirical evidence supports the existence of three sub-categories of transactional outcomes: organisational credibility; access to resources; and financial performance. Second, Human and Provan (1997) define transformational outcomes as changes in network members' collaborative attitudes and behaviours. In other words, how network participation changed the actor's approach to work with others. In fact, the network provides a group of known firms with which members could engage frequently and safely in joint business, exchange of information and competency, and friendships. The argument is that a transaction makes resources available at different network places, while a transformation creates "novel" resource from the combination of the existing ones (Beije and Groenewegen, 1992).

Both these outcomes could be considered, and in turn need to be assessed not only at the level of individual SMEs evolving in a network (i.e. micro level), but also at the level of the network as a whole entity. The latter refers to meso level of analysis, while the network environment/context constitutes the macro level (Beije and Groenewegen, 1992). For example, either the networks' unique capability to create collectively novel resources, or the fact that cooperatives or consortia could have superior external legitimacy (e.g. credibility, bargain power, and authority) than that of their individual members, demonstrate the importance of examining outcomes at both levels. In the literature, there is a lack of studies that simultaneously address the micro, meso and macro level (Foss 1999; Venkatraman and Lee, 2004). Therefore the novelty of this research is that it focuses equally on the three levels, for the following reasons. First, many outcomes i.e. learning, appear at the network level, but the actual learning process often starts at a level slightly below (e.g. dyads, cliques). This strong interplay between the meso and micro levels respectively stresses the need to analyse performance outcomes at both levels. Second, the current research examines changes in the network structure and governance as a whole over time, which clearly constitute network-level outcomes. For instance, it addresses questions of how the overall sustainability of a

network can be enhanced, particularly by examining the effectiveness⁴⁰ of its existing governance, or what happens when a network fails. The network structure and governance are assessed within the particular network contextual conditions at any point of time that entails considering both meso and macro levels. Third, negative externalities generated by networks often are first discovered at the network level, which necessitates a focus on network-level outcomes as well as outcomes for individual firms. Finally, Provan *et al.*, (2007) point out that researchers emphasise efficiency, rather than effectiveness, and organisational rather network-level outcomes. In conclusion, exploiting rather than minimising the richness of the network phenomenon requires assessing together the three aforementioned levels: micro, meso and macro.

Thus far, when considering the impacts of networks on SME performance, the main thrust of the literature has been to assume that impacts are primarily positive. Several industrial economic scholars however, have focused on the 'dark side' of business networks. As Grandori and Soda (1995, p.193) note, negative outcomes tend to be observed when business networks are considered "at the more general level of economic policy and law i.e. at the level of the competitiveness, effectiveness and fairness of national or international economic systems". Thus, a number of concerns and criticisms have been raised regarding the negative externalities that networks may generate for the whole economy, including cartels and unstable competitive advantage between firms (Soda and Usai, 1999) or regions (Grabher, 1993). Furthermore, networks might become a hindrance to the further development of their members, because of institutional isomorphism (DiMaggio and Powell, 1983) and a shift from complementary to similar resources (Blundel and Smith, 2001), which impedes innovation (Loasby 1999) and increases conflict likelihood and tie termination. Particularly in industrial districts, "the strong and long-established institutional framework, cultural homogeneity and reliance on shared tacit knowledge ...may create organisational inertia, insularity and

⁴⁰ Network effectiveness is defined as the "positive network-level outcomes that could not normally be achieved by individual organisational participants acting independently" (Provan and Kenis, 2008 p. 230). Because if we argue that networks can be a "good thing", we need to know under what circumstances they are likely to appear and strengthen.

complacency” (Blundel and Smith, 2001 p, 16). In extreme situations, whole supply chains can become ‘locked-in’ to old technologies. Consequently, they suffer from a lack of flexibility to adapt and over-dependence on a limited number of customers or suppliers, exacerbating the decline of a whole regional cluster (Bozdogan *et al.*, 1998). For example, Bozdogan *et al.*, (1998) and Neal (1999) showed how under certain circumstances, leading suppliers in a chain gradually squeeze out the smaller ones, which can be viewed as detrimental for these smaller firms.

Section 3.3 has reviewed the literature relatively business networks, explaining what they are, why they exist, problems of operation and impacts on SME performance. In particular, the literature on the positive and negative impacts of business networks demonstrates that although networks can offer the potential to enhance firm performance, such outcomes do not always emerge as anticipated. This draws attention to network evolution and the question of how this evolution can be predicted and managed so as to maximise the chance of the outcomes. Clearly, it is vital for those involved in SME networks to know what is likely to shape or influence the evolution of such networks, and to identify any mitigating actions they could take. Hence, this chapter now goes on to consider the factors that can influence the evolution of business networks, to build a picture of how performance outcomes may be determined.

3.4 Factors Influencing the Evolution of SME Networks

The section aims to present the key insights from the literature regarding factors influencing the evolution of SME networks. An extensive literature review revealed numerous factors influencing when and how business networks form, strengthen or dissolve, but failed to identify a pre-existing categorisation of the main contextual factors which may be influential in SME network evolution. Hence, the following sections offer an original categorisation of key contextual factors that emerged from the literature review, under the headings of market conditions, social cohesiveness and

external institutional support⁴¹. The nature of each contextual factor is described in detail, together with a discussion of the implications for SME network evolution.

3.4.1 Market Conditions

Market conditions are the first contextual (macro) factor influencing SME network evolution considered here. According to Dacin *et al.*, (1999), firms, and the networks which they form, are both embedded in specific markets that are defined in terms of products, services, clientele, competitors, suppliers, functions performed, time and territory (Halinen and Tornroos, 1998). They are also embedded in certain infrastructural technologies at the country level (e.g. transportation and information systems), product technologies, technological processes, and relationships with particular research laboratories and universities (Håkansson, 1989; Hagedoorn, 1993). These technologies compel certain economic expenses from firms.

Numerous studies suggest that successful the strength and direction of SME networks are supported by or dependent on market conditions. These are discussed under five different aspects. First, the extent to which a significant volume/segment of end-users exists in a market, who are capable of differentiating between products in the category (in terms of product labels, quality, origin specifications marketing promotions, and intrinsic cues of value). Research evidence finds that, as long as a high and stable profit margin is generated (Bianchi, 2001), strong network linkages tend to ensue from the existence of discriminating consumers as they provide the network with impetus, to develop quality product and brands (de Roest and Menghi, 2000). Second, the extent to which *the pressure of well-differentiated substitutes or imitations* exists in a market, which are offered by competitors outside a specific region and may misuse the name of

⁴¹ In fact, the discussion about market conditions, social cohesiveness and external institutional support reflects and explains the embeddedness of business networks in respective on-going larger structures of market/technology, social-cultural/cognitive context and political/institutional one (Dacin *et al.*, 1999). The term of embeddedness was first introduced by Polanyi (1944). The argument is that embeddedness in context affects (reduces) the actors' economic rational activity. Neglecting the temporal and dyadic perspective of transaction cost analysis (TCA), embeddedness is used to explain the continuous and interactive process of change in inter-firm relationships, which needs to consider the contextual setting, time and space (Granovetter, 1973, 1985; Pettigrew, 1990; Grabher, 1993; Halinen and Tornroos, 1998).

provenance or product under investigation. The stronger the pressure of well-differentiated substitutes or imitations, the more reinforcing it is for the existing network linkages among SMEs inside the specific region, by making network members realise “the strength of unity” (Barjolle and Sylvander, 1999; Sylvander *et al.*, 2000). Third, the existence of very concentrated downstream channels influences SME network evolution. In particular, a fragmenting effect takes place on the network (Koka *et al.*, 2006), because the dominant firms are more attractive partners, and in turn better capitalise on opportunities, thanks to resource control and exclusive information. However, when the fragmented suppliers are in a disadvantageous position due to *unfair* treatment, this has the opposite effect. It stimulates the establishment of power ‘countervailing’ networks (Galbraith, 1980; Grandori and Soda, 1995; Masurel and Janszen, 1998), providing that sufficient social lateral interactions exist. Less-market oriented downstream actors are likely to treat the upstream actors unfairly. Next, is the observation that *the physical and technological constraints* increase production and marketing costs, and therefore affect differently the relationships of processors (e.g. food processors) with their suppliers and distributors. Such constraints exacerbate variability in quality/quantity standards, and include seasonality, perishability, heterogeneity in quality and quantity, scant resistant to transportation and handling, lack of effective quality assessment techniques etc. From the suppliers’ side, empirical evidence suggests that quality brand-oriented processors are likely to adopt a vertical integrated form, “virtual” (e.g. contract agriculture) or real (i.e. cooperatives), rather than spot markets to tackle the issue of quality uncertainty and information asymmetry (Papandreou 1994; Schmitz, 1999). In contrast, from the distributors’ side, these processors usually establish long-term bilateral relationships. Thus far, when considering the impact of the physical and technological constraints on SME network evolution, the literature suggests that it is primarily positive. However, the aforementioned physical and technological constraints are expected to weaken either real or “virtual” vertical integrated forms, if mechanisms to obstruct repeated opportunistic behaviour of some members are absent or inefficient in the collective scheme (De Roest, 1999; Chappuis and Sans, 1999; Barjolle and Chappuis, 2000). The final, but noteworthy, market condition considers the case when *the participation in a*

quality certification system, i.e. a less loose code of production practice, is set as a precondition for market entry. This is likely to have a positive effect on SME network evolution, by encouraging fragmented SME suppliers to adopt again a vertical integrated form, either “virtual” or real (Spiller and Zellner, 1997; Maze *et al.*, 2001; Borch and Roaldsen, 2007). Overall, *market conditions* have a complex impact on evolution of inter-firm relationships.

3.4.2 Social Cohesiveness

The social, cultural, and cognitive embeddedness of firms have often been proposed as key factors to explain the evolution of business networks. It is argued that “collective understandings shape organisational strategies and goals, ideologies that prescribe conceptions of the means and ends of individual action, and rules systems that categorise organisational actors and systems of organisational control” (Dacin *et al.*, 1999, p. 328-329). Cognition here infers not the individual, but the collective large-scale social processes of classification and categorisation of elements (Walsh, 1995). More precisely, empirical research presents models explaining how authority (Kurowski, 1998), organisational identity (Dutton and Dukerish, 1991), expertise, hierarchy and control (Guillen, 1994) are culturally embedded. It seems that concepts of control (Fligstein, 1991) and competition (Lant and Baum, 1995) are embodied in industry cultures, which dramatically determine what individual managers define as strategic issues or best operating practices. Therefore, social factors influence SME network evolution.

Another concept frequently cited in the literature to express the social, cultural and cognitive embeddedness of individuals (e.g. firms, persons etc.) is *social cohesiveness*. It refers to the nature and extent to which network actors share common ties, interests and perceptions. Empirically, it refers to contexts where local people know each other well, work together, and have family ties or common social lives. The presence of such strong pre-existing socio-cultural bonds helps to develop (Scott, 1988; Baker, 1995), and sustain (Huggins, 2000) successful collective action providing that a capable leader exists (Barjolle and Sylvander, 1999; Bhaskaran 2004; Mattiacci and Zampi, 2004; Ryan

et al., 2004). In practice, personal ties are strengthened by shared values, beliefs and reciprocity by the pursuit of common goals, interests, and mutual benefits (Hu and Korneliussen, 1997). Larson (1992) stated that trust and inter-personal and social relationships consist the pre-requisite condition for building up inter-organisational ties (Gundolf and Jaouen 2008). This argument is valid since “machine-like relationships do not exist” (Håkansson and Snehota 1995, p. 10). Moreover, Macauley (1963, p.63) notes that ‘non-contractual’ inter-firm relationships rely on “a man’s word and common honesty and decency”. It is generally found that high levels of pre-existing social cohesiveness amongst network members encourage stable network relations (Sammorra and Biggiero, 2001). Overall, pre-existing social cohesiveness and communality in interests and perceptions appear to have a catalyst role in SME network formation.

3.4.3 External Institutional Support

A final, but noteworthy, factor influencing SME network evolution is the political and institutional context in which networks are embedded. “*Economic activity is organised through institutions, ... (which) themselves anchored in wider political arrangements and cultural systems of meaning*” (Dacin *et al.*, 1999, p. 322). In practice, economic transactions are ruled by governance regimes, whose property rights politicians enforce through the authorisation of institutional and legal frameworks (Campbell and Lindberg, 1990). Empirical evidence (Hamilton and Biggart, 1988; Dobbin, 1994) suggests that markets, industries and business networks in Europe, Asia and USA follow distinctive institutional patterns embodied by these respective policies, relating for example to property rights, rules governing competition, cooperation and access to capital (Dowd and Dobbin, 1997) and institutional change mechanisms. Inclinations towards opportunism, trust, legal contracting and self-interest are affected by these distinctive institutional patterns (Cooke and Wills 1999; Keeble *et al.* 1998, 1999). For example, Japanese and German systems tend to rely less on legal contracts than UK and US ones (Janne 2002; Nooteboom 2000). Authorisation, prevalence (Jepperson and Meyer, 1991) and potential for competitive advantage of firms (Porter, 1985) are anchored in wider political and legislative arrangements, which seem to shape the boundaries and the

'paths' of strategic action (Biggart and Orru, 1997). For instance, the competitive advantage of firms stems from the exploitation of weaknesses in industry structures. Differences in (political) power and political embeddedness create additional transactional costs, typically invisible in the traditional supplier-buyer relationship, due to the impact of political intervention (Melin, 1989; Jacobson *et al.*, 1993).

For the current research, the impact of political and institutional context on network evolution is empirically assessed through the concept of *external institutional support*, or 'institutional thickness' (Amin and Thrift, 1995). This refers to the nature and extent to which regional or national governments' 'public support' (Grandori and Soda, 1995; Barjolle *et al.* 1999; Street and Cameron, 2007) is offered to SME networks. It refers to the legal and policy context of the network, and includes the legal framework, funding opportunities and, supply quotas prescribed as well as the public agencies facilitating SMEs and acting as intermediaries in cluster formation (Davenport *et al.*, 1999).

The influence of external institutional support on SME networks could be positive, for example by encouraging intra- and inter- sectoral collaboration on a regional basis with adequate funding (e.g. LEADER programs; Ryan *et al.*, 2004) and access to information and services (Asfaw, *et al.*, 2007). However, it can also be negative. Economic support can harm more than benefit both SMEs and their collective schemes by setting them in a defensive or passive position (Oustapassidis *et al.*, 1993). For example, funding for cooperatives' infrastructure, when it has not previously secured the collection of a sufficient quantity of raw materials by the cooperative members or set artificially low interest rates for credit capital assets for cooperatives (Oustapassidis, *et al.*, 1993), can harm both the network (e.g. reaching a prohibit production cost, conflicts among the cooperative members) and those SMEs not belonging to the network (e.g. creation of unfair market conditions for those do not enjoy such favourable conditions). Overall, the strength of SME network linkages are expected to increase only where external institutional support respects the network's autonomy and self-management, and furthermore enhance its flexibility and efficiency.

The benefits of the embeddedness research are summarised by Dancin *et al.*, (1999, p. 320-321).

"...tends to strike a balance between behavioural rationality and economic efficiency (Smelser and Swedberg, 1994). Embeddedness arguments take the economic activity seriously, but look beyond the rhetoric of intentionality and efficiency, and make a strong commitment towards understanding relational aspects of organisations (Marsden, 1981)."

This section has presented the key insights from the literature regarding how market conditions, social cohesiveness and external institutional support influence the evolution of SME networks, in particular whether these factors seem to strengthen or weaken intra-network linkages. From the literature, a series of tentative proposals has been generated, which can be used as part of preliminary stages of data collection and analysis in empirical study. Table 3.2 presents a complete summary of the proposals. As well as investigating the actual influence of each one individually through empirical study, this research also aims to expose their relative significance and investigate whether one contextual factor can counterbalance or reinforce/strengthen another one.

3.4.4 The Role of Network Actors in Network Evolution

As revealed in the preceding section, contextual factors can change the conditions within which networks function, altering the demands on member firms and management. At this point, network actors "can either struggle with the current governance form, which is likely to become increasingly ineffective, or shift to a different form that is consistent" with the new demands (Provan and Kenis, 2008, p.). Therefore, evolution of networks is more than a simple natural process, entirely determined by external forces.

If conditions would trigger fundamental network reconfiguration seems to depend on actors' interpretations and intentional behaviours (Halinen *et al.*, 1999) for example, whether actors considered the market conditions to be critical and necessitating prompt action. Friedland and Alford (1991, p. 252) claim that despite the exchange facilitation,

Table 3.2: Summary of Contextual Factors Influencing SME Network Evolution and Research Proposals

1) MARKET CONDITIONS

* If a significant segment of end-users recognises and differentiates the product, this may enhance tighter cooperation to develop quality products and brands. So, this factor has a *positive* effect on SME network evolution.

* The pressure of well-differentiated substitutes and imitations is assumed to reinforce an existing collective action, by making its members to realise "the strength of unity". So, this factor has a *positive* effect on SME network evolution.

*The existence of very concentrated downstream channels or monopolies is assumed to inhibit the collective action of fragmented suppliers. This factor can have a *negative* effect on SME network evolution.

* *However*, when the fragmented suppliers are in a disadvantageous position, due to unfair treatment from the concentrated downstream actors, this is expected to have the opposite effect, because fragmented suppliers join to a "countervailing power" network. It can also have a *positive* effect on SME network evolution.

* It is assumed that the physical and technological constraints increase production and marketing costs, and by this way affect interfirm relationships, due to both information asymmetry and quality uncertainty. From the suppliers' side, quality brand-oriented processors are likely to adopt a vertical integrated form, "virtual" (e.g. contract agriculture) or real (e.g. cooperatives), rather than spot markets. From the distributors' side, these processors usually establish long-term bilateral relationships. This factor can have a *positive* effect on SME network evolution.

**However*, these physical and technological constraints are expected to weaken either real or "virtual" vertical integrated forms, if mechanisms to obstruct repeated opportunistic behaviour of some members are absent or inefficient in the collective schemes. It can also have a *negative* effect on SME network evolution.

*The participation in a quality certification system, as a precondition for market entry, is likely to encourage fragmented SME suppliers to adopt a vertical integrated form, either "virtual" (e.g. contract agriculture) or real (e.g. cooperatives). So, this factor has a *positive* effect on SME network evolution.

2) PREEXISTING SOCIAL-COHESIVENESS & COMMUNALITY IN INTERESTS/PERSEPTIONS

*These two factors enhance the emergence and sustainability of SME collective initiatives, providing that a capable leader exists. So, this factor has a *positive* effect on SME network evolution.

3) EXTERNAL INSTITUTIONAL SUPPORT

* The external institutional support is likely to enhance the emergence and sustainability of SME collective initiatives, providing that it respects SME network's autonomy and self-management, and promotes their flexibility and efficiency. So, this factor can have a *positive or negative* effect on SME network evolution.

“social networks per se do not have content, and as such do not entail interests, values, motives, beliefs”, but the network actors do. Consequently, any study of the evolution and performance of networks also needs to investigate the role played by network actors, particularly their collaborative capabilities to recognise opportunities and costs in embedded relations (Uzzi, 1996). One can argue that actors can and make their choices for reasons like mimicry (DiMaggio and Powel, 1983), past experiences and personal preferences, but the demand of efficiency and effectiveness of the network configuration under a particular set of contextual conditions cannot be totally ignored (Provan and Kenis, 2008). The implication for the current research, therefore, is to include in the analysis, in addition to the contextual factors influencing network evolution, the features of networks themselves which have agency in the evolution process. An extensive review of the literature on SME networks failed to identify any pre-existing categorisation of the features of SME networks which may be influential to performance. Hence, the next section offers an original categorisation of these features, under the headings of network member profiles and competencies, as well as governance structure.

3.5 Networks Features Influencing SME Network Performance

The aim of this section is to present what existing literature says about the influence of SME network features on network performance. As highlighted above, the features are categorised under three main headings: network member profiles and competencies, as well as governance structure. In the following sections, the nature of each feature is described in detail, together with discussion of the implications for the SME network performance. To assess performance, the categorisation of transactional and transformational outcomes proposed by Human and Provan (1997) is employed. Transactional outcomes refer to impacts such as financial performance, access to resources and organisational credibility. Transformational outcomes refer to impacts such as changes in network members' collaborative attitudes and behaviours.

3.5.1 Member Profile

The first feature of an SME network that influences performance is the profile of the members. In particular, *low diversity* and *incompatibility in network members' profile* may reinforce network performance, but constitute weak stimuli for innovation, (Milliken and Martins, 1996).

In terms of member diversity, Milliken and Martins, (1996) note that diversity among network members can be manifest in 'observed' attributes (i.e. *physical* profile) such as gender, age, location, land size or having a second job, and also 'less visible or underlying' attributes (i.e. *attitudinal* profile) such as members' behaviours, perspectives and goals. On one hand, low diversity in network members' profile may prevent conflicts (Pelled et al., 1999) and facilitate tacit knowledge transmission (Cross et al, 2001), coordination (O'Reilly *et al.*, 1989) and goal consensus (Provan and Kenis, 2008). On the other hand, it may promote a mindset of 'us versus them' (Krackhardt and Stern, 1988). In contrast, high diversity may be a stimulant for innovation (Provan and Kenis, 2008) and affect positively some cognitive outcomes such as higher number of alternatives considered, quality of ideas and cooperation level in complex tasks (Milliken and Martins, 1996).

In terms of seeking an explanation for the aforementioned paradox and 'why actors are attracted to certain others', literature used the concept of similarity or homophily, defined by Borgatti and Foster (2003, p.999) as "the tendency for people to interact more with their own kind - whether by preference or induced by opportunity constraints (McPherson and Smith-Lovin, 1987)". Homophily is related to clique analysis (Scott, 1991) and maintenance of power/status inequality within organisations (Brass, 1985; Ibarra, 1992). Provan and Kenis, (2008) argued that network literature concentrated more on similarity/homophily, rather than goal consensus per se. Based on their research on 'domain similarity', Van de Ven (1976) demonstrated that in the absence of hierarchy, general consensus on the content and process of broad network-level goals

might suffice to build network-level commitment of participants. Examples of such goals could be addressing network-level needs e.g. funding, legitimacy, setting minimum standards for the sector's services. Considering that absolute similarity of purpose may make working together problematic, due to competitive pressures (Park, 1996), Provan and Kenis, (2008) clarified that networks need only moderate levels of goal consensus to be effective and the critical point becomes the governance of network relationships. Overall, low diversity in network members' profile is expected to generate a moderate level of goal consensus, which in turn reinforces network performance in terms of both transactional and transformational outcomes.

3.5.2 Member Competences

The second network feature impacting on network performance is the participants' competencies. Literature suggests that if *network members* have a sufficient range of *competencies*, according to their responsibilities, then network performance is enhanced. Particularly, *production related capabilities, marketing and entrepreneurial skills* together with *collective-management capabilities* seem necessary for good network performance.

With respect to *production related capabilities*, Sutton-Brary (2008) showed the impact of product and service quality in relationship development and stability. Regarding *marketing and entrepreneurial skill*, Matsuno *et al.* (2003) stressed the need of firms to be market-oriented within their network, which means be aware of and compatible with other members' expectations, restrictions and induced norms. The accuracy of managers' perceptions of external interactions (called network horizon or picture) appeared crucial, not only for obtaining adequate information, but also for taking subsequent marketing decisions and actions. However, empirical evidence indicated that managers often have inaccurate perceptions of the world (the network and its environment/context) in which they are embedded and operate (Starbuck and Mezias, 1996; Sutcliffe, 1994; Holmen and Pederson, 2001), while this accuracy is affected by

their personality, hierarchical position and centrality in the network. Moreover, Hollingshead (1998) introduced the *transactive memory* concept, which considers that “knowledge is distributed in different minds” (Borgatti and Foster 2003, p. 998), and in order to exploit the knowledge effectively, network actors need to be aware of ‘who knows what’ (Andersson *et al.*, 2007). For example, the skill to identify gatekeepers is a crucial one (Pittaway *et al.*, 2004). Entrepreneurial use of interfirm relationships depends on the firms’ capabilities to utilise relationships and absorb the knowledge/ideas generated by these relationships (Cohen and Levinthal, 1990; DeSanctis *et al.* 2002). However, not all firms possess these capabilities and maximize the advantage derived from their inter-firm relationships (Hanna and Walsh 2002; Pammolli and Riccaboni 2002).

Finally, *collective-management capabilities* turn attention from dyadic interfirm relationships towards a discussion of how firms can deliberately design their whole network to meet their collective needs. The importance of collective-management capabilities is stressed by Bolton *et al.*, (1994), Gemser *et al.*, (1996), Coles *et al.*, (2003), Ferrary, (2003) and Ritter and Gemunden (2003). Successful clusters were found to be “led by people who value learning, are committed to their community, and are willing to work hard towards a collective vision for their industry,...take responsibility for collective competitiveness” (Rosenfeld, 2002). Leadership appears a critical competence (Bhaskaran, 2004; Mattiacci and Zampi, 2004). Milward and Provan (2006) identified five essential network management tasks⁴², including accountability, (internal and external) legitimacy, conflict, design of governance structure, and commitment. Pittaway *et al.* (2004) recognised as core network management skills the following: taking decision when a legal contract is needed, balancing formal and informal agreements and identifying the necessary milestones or interventions (Shaw, 1998). Managing inter-firm relationships and/or the whole network constitute difficult tasks (Biemans, 1991), because in practice it means creating the ideal conditions for both

⁴² In Appendix I, Table 3.4 presents the responsibilities/management Tasks stemming from these five tasks for both network managers (column 2) and members/participants (column 3).

explicit and tacit knowledge, as well as energies for enhancing goal achievement (e.g. trust, courage, determination, commitment etc.) to flow through relationships (Ambler and Styles 2000).

Furthermore, Provan and Kenis (2008) noticed that different governance forms⁴³ demand varying degrees of competencies from participants to achieve their network-level goals. Individual network members may not possess the skills demanded, and this inconsistency was suggested to lead “either to overall network ineffectiveness, dissolution or change in governance form” (Provan and Kenis, 2008, p.241). The collective-management task becomes even more challenging because of the dynamic character of networks and reflects an additional, apart from that of “learning within networks” (e.g. product innovation), dimension of learning, which is “learning about networking” (Powell and Brantley, 1992; Mody, 1993; Gulati *et al.*, 1994; Gulati, 1995). Knowledge of how to collaborate accumulates over time through experience, reflection and interpretation (Lorenzoni and Lipparini, 1999). Indeed, empirical evidence provided by O’Reilly (2003) supported that key competences (learning) and governance (coordination) co-evolve, serving to strengthen network relationships. Overall, the theoretical proposition states that if *network members* have a sufficient range of *competencies*, according to their responsibilities, the network performance is enhanced, in terms of both transactional and transformational outcomes.

3.5.3 Network Governance

Third, literature suggested the *network governance* structure⁴⁴ as a strategic variable affecting dramatically its performance outcomes. Grandori and Soda’s (1995) review

⁴³ Provan and Kenis, (2008) defined three different network governance forms: (Self) Participant-governed networks, Lead Organisation-governed networks and Network Administrative Organisation (Table 3.5 in Appendix I).

⁴⁴ Provan and Kenis, (2008, p. 331) explains governance as follows: “a focus on governance involves the use of institutions and structures of authority and collaboration to allocate resources and to coordinate and control joint action across the network as a whole. These interactions are distinct from operational links, which are often dyad based including referrals, sharing of information, and joint programs”.

gives an indication of the variety of coordination mechanisms discussed in network literature. A distinction can be made between formal and informal governance mechanisms. Regarding informal ones, it is referred the social or peer control based on power and influence (Brass 1984; Thorelli, 1986) and on moral obligations such as norms of fairness, honesty, reciprocity (Pruitt, 1981), fear of ostracism and loss of reputation (Portes and Sensenbrenner, 1993; Jones *et al.*, 1997). Trust is often cited as a critical informal governance mechanism (Powell, 1998; Uzzi, 1997; Lipparini and Sobrero 1994), which facilitates the transmission of new ideas (Hausler *et al.* 1994; Hoang and Antoncic 2003; Sherer 2003; Fritz and Fischer 2007). The goodwill trust sorts out inherent problems like information asymmetry (Weitzel *et al.* 2003) by working as a “safeguard mechanism“, against risks of opportunism (Bradach and Eccles 1991, Dyer and Singh 1998). Moreover, as Andersson *et al.* (2007, p. 36) pointed out “the more tacit the knowledge (is), the greater the need for extensive interaction and a high degree of relational embeddedness (are) in order for the firm to have good opportunities to absorb the knowledge”. However, Grandori and Soda, (1995) asserted that trust is an intermediate variable, better explained as an outcome rather as mechanism. This position is adopted by this thesis, classifying trust as a transformational outcome.

Apart from informal coordination mechanisms, the design and sufficiency of the formal network governance matter. Empirical evidence supports that network performance and sustainability decreases when its governance structure is under- or over- formalised (Nooteboom 2000). Therefore, it seems important to assess the sufficiency of governance mechanisms regulating at least five main aspects of collective action: (i) *power distribution* (Grandori and Soda, 1995; Johnsen *et al.*, 2008), (ii) *accountability and formality* (Milward and Provan, 2006; Provan and Kenis, 2008), (iii) *diffusion of information and knowledge* (Grandori and Soda, 1995) (iv) *resolution of conflict and trust building* (Grandori and Soda, 1995; Coles *et al.* 2003) and (v) *monitoring, evaluation and planning* (Grandori and Soda, 1995; Provan and Kenis, 2008).

Empirical evidence suggests that high number of SMEs makes a collective strategy, difficult to be identified and developed (Canali, 1997). Some of the better-proposed ways to arrange these issues are described below. First, a proper communication system needs to be established along the whole supply chain in order consumers' messages to reach all producers (Canali, 1997) and individual goals to be adjusted to a collective one (Chappuis and Sans, 1999; De Roest and Dufour, 1999). Indeed, Ritter and Gemünden (2002) highlighted such an integrated internal communication structure as an important part for the development of network competences. In terms of accountability and formality, network members need to reach a collective agreement on how to allocate resources and rights based on *measured* contributions, such as agreeing on the various qualities, setting a payment scheme according to the pre-determined quality categories, and sometimes on proposing a model of contracts. As a result, network members "are held accountable for their actions, at least relative to network-level goals (in order) to protect against the 'free riders'... members who perform little or no work but reap the network's benefits" (Milward and Provan, 2006, p.18). The development of the internal mechanisms for resolution of conflicts is deemed necessary (Chappuis and Sans, 1999; Barjolle and Chappuis, 2000). Similarly, mechanisms for process monitoring, evaluating and planning are required to be established in clusters (Dawson and Paris, 2003). All the aforementioned mechanisms are expected to enable the network to operate efficiently and effectively, increasing its probability to survive (Barjolle and Bertill, 1999; Frayssignes, 2003), by being flexible and adaptive. Overall, the theoretical proposition states that SME networks characterised by high power distribution and sufficient accountability/formality, as well as the existence of efficient inter-firm mechanisms for transferring valid information, resolving conflicts and monitoring/evaluating, are more likely to perform well, in terms of both transactional and transformational outcomes.

Further research is needed to examine all these theoretical propositions of network features together. The current research aims to reveal the barriers to SMEs' learning on how to collaborate (e.g. build trust, enhance goals consensus), and to re-design the

characteristics of network configurations (e.g. governance) in order to meet individual or collective needs. It responds to the urgent need, pointed out by Pittaway et al. (2004) to examine which are the critical features of network governance and management (Bolton *et al.*, 1994) that enhance SMEs' sustainability and innovation capacity. Furthermore, the current research seeks to investigate the interplay between the different network features. For instance, it aims to explore if and how the governance structure of a network can counterbalance any negative implications of network members' profile and competences.

Overall, this Chapter has revealed insights, and developed proposals, on how SME networks evolve, the factors influencing that evolution, and the implications for performance. The combined examination of these three dimensions gives the opportunity to describe a network, its evolution and performance outcomes in much more depth than can be found in existing literature. The next section highlights this novel contribution of the current research, and explains the details of the framework proposed as a starting-point for empirical investigation of SME network evolution and performance.

Table 3.3: Description of Network Features Influencing SME Network Performance and their Hypotheses

<p><i>1) DIVERSITY IN MEMBERS' PROFILE</i> Low diversity and incompatibility in network members' profile, both physical and attitudinal, is expected to be a weak stimulus for innovation, but to reinforce network performance. (-)</p> <p><i>2) SUFFICIENCY IN MEMBERS' COMPETENCIES</i> Production related capabilities, marketing and entrepreneurial skills together with collective-management capabilities affect network performance. If network members have a sufficient range of these competencies, according to their responsibilities, the network performance is enhanced. (+)</p> <p><i>3) NETWORK GOVERNANCE STRUCTURE</i> A SME network is expected to perform well, if sufficient governance mechanisms exist to regulate the following five main aspects of collective action: (i) power distribution (ii) accountability and formality, (iii) diffusion of information and knowledge, (iv) resolution of conflict and trust building and (v) monitoring, evaluation and planning. (+)</p>

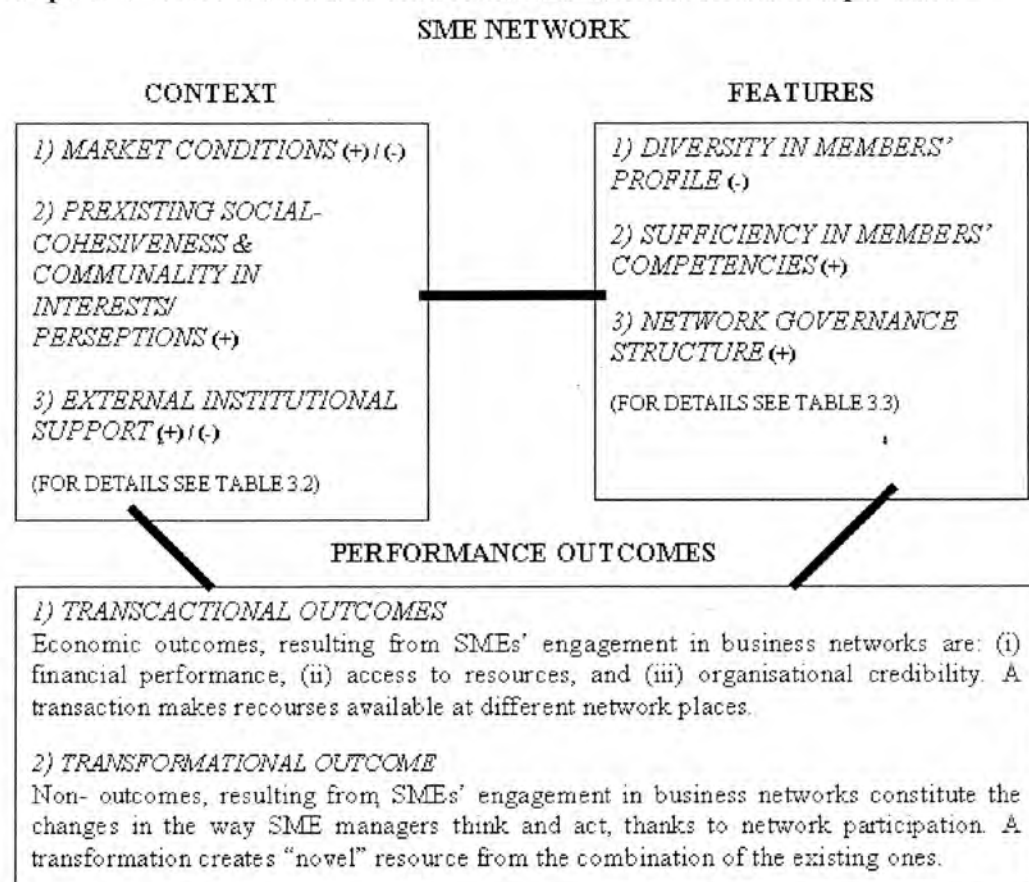
3.6 SME Network Evolution and Performance: Theoretical Framework and Summary of Research Propositions

Having considered the essential elements of network evolution and performance, and having proposed multiple theoretical arguments relating to these (Tables 3.2 and 3.3), this section draws the elements and arguments together into a consolidated framework. The intention of the framework is to facilitate empirical analysis of network evolution and performance (Figure 3.2), and focus on the interplay between contextual factors and network features.

The novelty of the framework is that it analyses simultaneously key contextual factors, network features and performance outcomes salient to SME networks. Additionally, it acknowledges the interplay of these three dimensions. Under each dimension, meaningful theoretical propositions are offered regarding contextual factors influencing network evolution and network features influencing network performance, respectively. All propositions are derived from careful scrutiny of the literature.

It is important to emphasise that although the proposed framework is intended to facilitate empirical study, it should be viewed as a starting-point for analysis, rather than a model for deductive testing under a deterministic approach. Given the nature of the research phenomena, it is important that an abductive research approach is maintained, leaving open the possibility for other theoretical propositions or categorisations and definitions to occur, if empirical evidence reveals that actors follow a different way of seeing and analysing things than that theoretically proposed. Diversity and uniqueness of each network is taken under consideration. Having reviewed the literature on SME network evolution, the thesis now moves on to the empirical research phase. The next Chapter presents the methods employed.

Figure 3.3: Linkages between SME Network Context and Features and Implications for Performance: A Framework and Theoretical Propositions



Chapter 4: Methods

4.1 Introduction

In sharp contrast to the abundant network research at the level of individual organisations and dyadic relationships, as shown in preceding literature Chapters, many important questions regarding network evolution and performance, especially at the whole network level, are left unanswered. Therefore, an empirical study was conducted to provide more precise answers. This Chapter aims to give (i) a brief description of the broad methodological approach and all the specific sub-decisions of research design undertaken for the empirical work, (ii) a justification for these choices in terms of their appropriateness for the task with strong reference to research objectives (RO), and (iii) a description of examples of how methods were applied in practice for the current research.

This Chapter proceeds as follows. First, it outlines the emerging questions/issues from the literature review, then it analyses their nature and methodological implications for the research design. The design comprises an abductive research strategy, qualitative case study methodology, and the collection of primary data through participant observation, in-depth interviews and secondary data. Purposeful sampling and methods of triangulation are also discussed, together with the data analysis methods which followed the principles of grounded theory. For each aforementioned choice, a section gives the relative theory, “best practices” and justification with reference to the relevant RO, followed by a section describing the specific procedures and reflections executed in the current research. The Chapter concludes with a discussion regarding the generalisability, reliability and validity of the findings.

4.2 Restatement of the Research Objectives

In response to the gaps of knowledge described in Chapters 2 and 3, this thesis takes the following research objectives forward in the empirical study:

- (i) *To describe the key features and trace the evolution of a sample of SME networks, as whole entities, within the Greek agrifood sector*
- (ii) *to identify the key factors influencing the evolution of these networks, both in terms of contextual factors and network features*
- (iii) *to build a theory of how the context and features of these SME networks impact on the performance outcomes of individual SME members, and the networks as whole entities*

With respect to objective (i), Chapter 2 and 3 indicate that SME network evolution is a dynamic, complex and socially-embedded phenomenon, and little knowledge exists in the GAS' context. Consequently, empirical research is required to describe the features, evolution and performance of a sample of Greek agrifood SME networks, with emphasis on the symbolic meanings attributed by the protagonists. Regarding objective (ii), the two aforementioned Chapters also suggest that context and features of SME networks may constitute factors influential in network evolution, for instance the influence of the Greek State's intervention in the development of the cooperative movement is evident. However, further empirical research is needed to understand why some Greek agrifood SME networks are successful given the problematic GAS' context. Do these networks perceive and respond to the context differently? Empirical research is required to fully understand the patterns of behaviours and the underlying perceptions of the successful actors. With regard to objective (iii), Chapter 2 and 3 illustrate that the performance of SME networks needs to be linked to their evolution, with particular reference to the interplay over time between a network's features, context and outcomes. This approach could be useful in exploring the reasons why only a few Greek agrifood SME networks perform satisfactorily, by tracing the evolution of both successful and under-performing networks.

4.3 The Nature of the Research Objectives – Implications for Research Design

The substance of the research objectives contemplated above implies a need for a methodological approach sensitive and compatible with a number of issues. Particularly,

the dynamic character of the phenomena requires attention to processes, while issues emerging regarding context-specificity (e.g. embeddedness) and path/history dependency indicate a need to analyse the context of networks and avoid generalisations across time or space, respectively. Requirements for flexibility, sensitivity to multi-directional causality and focus of analysis at multi-levels (e.g. SMEs and the whole network) call for a research design open to adaptations. Since network realities are “socially constructed”, complexity-sensitive methods are necessary to study the real-world of protagonists as they unfold naturally, and avoid setting predetermined constraints on research outcomes. Besides, the assumption that each network case is unique suggests the adoption of a holistic perspective, where the phenomenon of network evolution would be studied as a whole, revealing interdependencies, rather than be reduced to a few discrete variables explained by a linear, cause-effect relationship. Consequently, an abductive analysis is preferable, with open questions that permit immersion in data details/specifics to discover underlying categories, dimension, and interrelationships.

With respect to the type of objectives (distinguished by Blaikie, 2000), the current study aims to *explore* network evolution phenomenon, and particularly *describe* network features, *explain* factors and mechanisms for network evolution, and *understand* and *predict* network performance outcomes. Based on the desirable features of the methodological approach described above, the following choices were deemed appropriate for the current research design: an abductive research strategy, qualitative methodology, case study for data collection and organising, grounded theory for data analysis, in-depth interviews and participant observation for collecting primary data, collection of secondary data, purposeful sampling methods, and triangulation techniques. A brief introduction, best practices and a justification for each choice are given below.

4.4 Presentation and Justification of Choices in Research Design

4.4.1 Research Strategy

The starting point for any methodological choices a researcher makes is the research strategy (RS) and approach to be followed. In Blaikie's (1993; 2000) classification, four research strategies in social science are distinguished based on their unique combinations of ontological and epistemological assumptions⁴⁵, although they overlap to some extent: inductive, deductive, reproductive and abductive. Their typical characteristics are summarised in Table 4.1.

A dominant school of thought about knowledge claims in marketing, inspired from the natural sciences (Woolgar, 1996), is that of positivism⁴⁶. Its *ontological assumptions* state that social reality consists only of observable events, independent of both the observer and social actors. The order of events can be described by universal causal relationships. Its *epistemological assumptions* suggest that this order can be discovered using 'objective' procedures such as experiments, statistically valid measures and representative samples (Silverman, 1993; Henwood, 1996) that produce 'objective' data ('observations'). Thus, if the current study adopted the logic of positivism, SME networks would be believed to operate under universal and fixed laws (Brown, 1993).

On the contrary, the interpretivist approach to social inquiry replaces the 'realist' *ontological assumptions* of positivism, with 'relativism'. The abductive research strategy, which the current study follows, belongs to interpretivism. To elaborate, imperative social science accepts that multiple and changing social realities exist, which

⁴⁵ The ontological assumptions referred to the "claims about what exists", while the epistemological assumptions concerns the "claims about what can be known and what criteria such knowledge must satisfy in order to be called knowledge rather beliefs" (Blaikie, 2000, p.8).

⁴⁶ *Inductive* research strategy (the logic of Positivism) shares the ontological assumption with *deductive* RS, but the latter rejects the epistemological assumptions of inductive.

Table 4.1: Distinctive Features of the Four Research Strategies

		Research Strategies			
		Inductive	Deductive	Retroductive	Abductive
Aim		To establish universal generalisations to be used as pattern explanations	To test theories to eliminate false ones and corroborate the survivor	To discover underlying mechanisms to explain observed regularities	To describe and understand social life in terms of social actors' motives accounts
From		Accumulate observations or data	Borrow or construct a theory and express it as an argument	Document and model regularity	Discover everyday lay concepts, meanings and motives
		Produce generalisations	Deduce hypotheses	Construct a hypothetical model of a mechanism	Produce a technical account from lay accounts
To		Use these 'laws' as patterns to explain further observations	To test the hypotheses by matching them with data	Find the real mechanism by observation and/or experiment	To develop a theory and test it iteratively
Ontological Assumptions		Reality exists independently of humans. It can be represented by universal propositions. Only what is observed is real.	(the same as Inductive)	Instead of transitive theories and concepts, there are real structures and mechanisms that produce events which sometimes can be observed. Social reality is socially constructed or the product of the unobserved structures of social science.	Social reality does not exist independently of social actors, who together negotiate, construct the meanings for actions/situations. This mutual knowledge facilitates and structures social relationships. Multiple and changing interpretations of social reality can exist, which is pre-interpreted before begin their research.
		Knowledge (regularities/patterns) can be experienced by human senses, producing observations through 'objective' procedures and means of experimental or comparative analysis.	Rather than waiting regularities to be revealed, the scientists impose theories, which they critically evaluate through a process of trial and error.	The underlying mechanisms can be only be known, by constructing models i.e. hypothetical descriptions of them. These structures and mechanisms represent only tendencies, rather universal laws and whether subjects act in the particular way depends on the existence of favourable circumstances.	Researchers re-describe in scientific language the socially constructed mutual knowledge of social actors, derived from their everyday concepts
Broad logic of social enquiry		Positivism	Critical Rationalism	Scientific Realism	Interpretivism

Adapted from Blaikie (2000)

are the product of social actors' negotiations about the meanings of actions and situations. As a consequence, there is "no independent or neutral way of establishing the 'truth'... each social reality may be 'real' to its inhabitants" (Blaikie, p. 116). According to the same author, the *epistemological* assumptions of interpretivism distinguish it sharply from positivism. Interpretivism accepts that the social world is pre-interpreted from 'inside' by its members, before the researcher even starts to interpret these everyday accounts. So, the researcher's task is to 'immerse' themselves in the protagonists' lay language, which is full of ongoing socially constructed and subjective meanings. To understand the protagonists' actions, motives and intentions, the researcher needs to elicit their tacit and mutual knowledge, in other words, the unarticulated, everyday, typical beliefs and practices, that are produced and constantly modified by the ongoing interaction of social actors. This knowledge has no independent existence apart from the actors' social activities and relationships which both facilitate and structure it (Blaikie, 2000). Having discovered the 'inside' view, the researcher re-describes it in scientific language, resisting imposing any preconceived views from 'outside' on it. However, theories derived from these re-descriptions can "include conditions of which social actors may be unaware" (Blaikie, 2000, p.116). Overall, in research approaches inspired by the interpretivist position, it is believed that statistical patterns and correlations are not fully understandable without knowing the motives and symbolic meanings that people attribute to actions, forming these patterns of behaviour. The active role of people is acknowledged (Silverman, 1993, Banister *et al.*, 1995).

Why is an abductive RS appropriate for the current study? The starting point in answering this question is to explain how this RS offers the best procedures for addressing the thesis' research objectives. First, the abductive RS has ontological and epistemological assumptions that distinguish it sharply from the *Inductive* and *Deductive* RS, and it fits better with the realities at SME networks. Practically, this means that realities about networks, their features, evolution and performance are assumed to be socially constructed by the network members in their ongoing interactions and to reside in their lay language. Only by 'immersing' in it, can the researcher capture the members'

tacit, mutual knowledge and symbolic meanings, which influence their networking actions. Second, in an abductive RS the researcher can decide on the distance gap between themselves and the social realities under investigation, therefore they can minimise the problem of “creating ‘sociological’ realities that may not represent the ‘social’ realities they claim to be studying” (Blaikie, 2000, p.121), caused by the researcher’s ‘coloured lenses’ due to their expectations, scientific language, and past professional experience. The underlying argument is that since social reality cannot exist independently from the actors’ knowledge about it, the researcher can learn and be equally close to this reality as any ‘native’ actor. Third, an abductive RS is an attractive choice since it can address well all three kinds of questions included in the current ROs: ‘what’, ‘why’, and ‘how’. Finally, it permits the researcher to adopt the role of a *reflective partner* or *dialogic facilitator* (Section 4.8.1).

4.4.2 Qualitative versus Quantitative Methods

An abductive research strategy inspires a qualitative research approach, which entails similar ontological and epistemological assumptions to interpretivism, in contrast with a quantitative approach, resided in the logic of positivism. To elaborate, distinctive preoccupations (Bryman, 1988) and focus of quantitative and qualitative researchers have been encountered, although the two approaches do not exclude each other (Denscombe, 1998). On one hand, quantitative social research focuses on the properties of phenomena and their relationships, therefore it employs mathematical models, measures pre-determined variables and tests hypotheses using structured questionnaires and representative samples of the population (Denzin and Lincoln, 1994). According to Bryman (1988) and Blaikie (2000), quantitative researchers are concerned with measuring the concepts through reliable and valid procedures, establishing causality and generalising with little tolerance for time and space limitations. Additionally, they are content to replicate their findings in similar contexts, and focus on individuals, but on their demographic rather than social reality. On the other hand, qualitative approaches seek the in-depth investigation of human behaviours, placing as central the viewpoint of research subjects, as these are inspired by Interpretivism’s assumptions for the existence

of socially constructed reality. To understand complex phenomena truly, social actors are asked open-ended questions, especially focusing on *why* and *how* aspects (Denzin and Lincoln, 1994). Having a less-structured nature compared to quantitative methods (Blaikie, 2000), qualitative research offers certain advantages, including data richness, a holistic perspective (Marshall and Rossman, 1999), and tolerance of ambiguity and contradictions, uncertainty and lack of control. Besides, it gives the ability to generate theories that are “grounded in reality” (Denscombe, 1998, p. 312). Therefore, qualitative researchers are preoccupied more with developing theory and concepts, rather than measuring them. They are committed to viewing and presenting reality from the research subjects’ viewpoint (Henwood, 1996)⁴⁷, giving context-rich, multi-layered (“thick”) descriptions of it (Geertz, 1973; Denzin, 1989). Additionally, their focus on social processes leads to the adoption of flexible, open and iterative approaches (Bryman, 1988; Blaikie, 2000).

Similarly, the starting point to answer why a qualitative approach is the most appropriate choice for the current research is to explain how it achieves the best procedure for addressing the research objectives. First, as may be appreciated thus far, qualitative research copes well with situations where parameters and dynamics of a social setting remain “undiscovered”. In these cases, qualitative researchers are sceptical of using tightly defined concepts and pre-determined associations, because of the risk to oversimplify the explanation of complex and dynamic phenomena, such as network evolution (Shaw, 1998). Crucially, they prefer studying the social processes as they naturally occur, ideally in their natural settings (Miles and Huberman, 1994), aiming to capture the latent, underlying issues of social dynamics. In practice, this emerging understanding is facilitated by an iterative process (Denscombe, 1998), of moving back and forth between stages of data gathering and analysis. This implies that by comparing

⁴⁷ As Blumer (1969, p. 56) explained, the researcher enters the world of social actors to “see the situation as it is seen by the actor, observing what the actor takes into account, observing how he interprets what is taken into account”. Social actors are regarded as purposive agents, since “the actor selects, checks, suspends, regroups, and transforms the meanings in light of the situation in which he is placed and the direction of his action...meanings are used and revised as instruments for the guidance and formation of action (p.5)” (Theorist of Symbolic Interactionism)

the empirical data with the research design principles, the codes and concepts already generated, qualitative researchers go into sufficient detail to unravel the complexity of network evolution dynamics, and safeguard that their analysis remains 'grounded'. Furthermore, qualitative analysis accepts the multiple meanings held for concepts such as "network", "evolution", "change", "context of a network", "impact of network evolution", as implied by network literature, and seeks to elicit how research subjects themselves interpret these concepts. Notably, it recognises human actors' active role, so it could be used for investigating how network members receive and transmit changes to other connected relationships (Halinen *et al.*, 1999). It becomes clear that network members' behaviour cannot be assumed to be fully predictable according prescribed laws, thus the positivism logic is inappropriate. On the contrary, research subjects are encouraged to express their own intentions behind behaviour by qualitative researchers. Finally, given the paradoxes and tensions faced by network managers and members, a qualitative approach appears an attractive choice, thanks to its tolerance of ambiguities and contradictions.

Researchers following a qualitative approach ought to respect certain research ethics (Bulmer, 1982; Punch, 1994), including respect of the rights and dignity of participants, and the avoidance of any harm (e.g. physical or psychological harm, confidentiality). Besides, they must operate with honesty and integrity, avoiding deception or misrepresentation, and only after receiving the participants informed consent.

4.4.3 Case Study Methodology

The next decision to be made is the choice of a mode of organising and selecting data. For the current research, the case study methodology was chosen. This choice represents a strategic decision relating to the research scale and scope and the case study approach is recognised as appropriate for both 'theory-testing' and 'theory-building' (Denscombe, 1998). As Blaikie (2000) notes, case studies can address a real social unit such as a group of individuals or an event, and treats it as a whole. Goode and Hatt

(1952, p.333) similarly note that a case study 'keeps together, as a unit, those characteristics relevant to problem investigated'. Cases can be qualitative or quantitative or both. Notably, the same methodological issues apply to case studies as to experiments and surveys, but their way of dealing with them varies.

The rationale for choosing the case study method was fivefold. First, the case study methodology offered an appropriate means of dealing with the subtleties and intricacies of real life situations, unravelling the complexities of relationships and processes (Denscombe, 1998). Second, it focused on *depth rather breadth* (i.e. on just one or a few special instances of the phenomena under investigation rather a wide spectrum), and on *particular rather general*, (i.e. extrapolating the general from the particular - Herriott and Firestone, 1983; Denzin, 1989). To understand clearly, it seemed essential to address the depth of the network evolution phenomenon before addressing its breadth. Third, by adopting an *holistic rather than isolated factors* perspective and focusing on *relationships and processes rather than only on outcomes*, case studies allowed explanation of why certain network outcomes occur, by looking at the network evolution process and the network configuration as a whole (Yin, 1994). Moreover, the study of the multiple network actors in their own terms and contexts, allowed the investigation of the interactions and processes flowing *between* actors as well as the actors themselves (Stake, 1995; Shaw, 1999). This was vital to capture both the relational and structural characteristics of the networks investigated. Fourth, case studies formed the basis of investigating *natural settings rather artificial situations*, since cases such as SME networks already exist and continue after the end of research, as 'naturally occurring' phenomena (Yin, 1994). This saved the researcher from replicating social phenomena under artificial settings, which is difficult due to lack of control on and knowledge of the crucial conditions and constituent aspects of network evolution and performance. Another reason for selecting this methodology was that case studies permitted the use of *multiple sources and methods* and concentrated on the 'interaction in a time dimension' (Goode and Hatt, 1952, p.339; Creswell, 1994). Therefore, it gave the opportunity to compare the findings and increase their validity. Finally, case studies were ideal to

investigate 'a contemporary phenomenon within its real life context, when the boundaries between the phenomenon and context are not clearly evident, and in which multiple sources of evidence are used' (Yin, 1994 p.13). From the literature, SME networks are found to have a highly complex, dynamic and social embedded character (Johannisson, 1986), therefore a case study methodology is suggested (Shaw, 1998). Moreover, research which investigates phenomena at different levels within a network (e.g. changes in structure, governance, culture, and performance observed at the level of individual firms and the network), while simultaneously treating the network as a single-case study implies the need for a case study methodology. Blaikie (2000) called this multilevel focus embedded case studies.

4.5 Case Study Selection

In the case study methodology, first the researcher has to select which cases are included in the investigation. This section explains the theory of selection and how cases were selected in the current research.

4.5.1 Theory of Case Study Selection

Two major categories of sampling for social science research are listed in literature: probability and non-probability. The former assumes the replication of findings in the larger population, is based on principles of probability and randomisation and accords with the spirit of positivism. In contrast, the latter does not rely on statistically representative samples of the population as the former does (Bryman, 2001). The rationale underpinning the choice of non-probability sampling for this research is presented below. In general, small-scale and qualitative studies tend to use non-probability sampling strategies like 'purposive' or 'theoretical' sampling or 'snowballing'⁴⁸. First, in non-probability sampling rather than trying to achieve

⁴⁸ Purposive sampling constitutes the strategic choice of information-rich cases, based on a purpose and available resources (Patton, 1990). Theoretical sampling refers to the selection of instances, following a route of discovery, with the ultimate goal to develop theory, which is 'grounded' in evidence (Glaser and

sameness, representativeness, randomness or generability, the researcher is trying to maximise variation, even contradiction (Denscombe, 1998). As Corbin and Strauss (2008, p.156) note, “variation is especially important in theory building, because it increases the broadness of concepts and scope of the theory”. Therefore, non-probability sampling is driven by the logic of ‘discovery’ (Glaser and Strauss, 1967). It follows an ‘emergent and sequential’ decision making process (Lincoln and Guba, 1985) which relies on outcomes from earlier research stages, and emphasises discovering the special rather than normal instances. SME network evolution is a dynamic phenomenon which can be fully explored only through such a ‘building-up’ analytical process. Second, the researcher adopting non-probability sampling benefits from ‘outliers’, by using them to test the generalisability of the mainstream findings, protecting against self-selecting bias and building better explanations (Miles and Huberman, 1994; Seale *et al*, 1999; Silverman, 2006). Given the high difficulty of pre-determining what is typical in network evolution, the inclusion of ‘outliers’ in research offers more opportunities than threats. Third, non-probability sampling techniques constitute a reasonable option when the population size and composition are unknown or all different attributes of a population cannot be included in the small sample (Denscombe, 1998). For instance, in-depth interviews, as labour intensive research, tend to be a practice applied mainly in small sample sizes. Indeed, little information is available about the number, categories/forms and size of Greek agrifood networks, also even for well-known cases the network boundaries are not easily identified and anticipated. Having set out the reasons for selecting a non-probability sampling approach, consideration now needs to be made given to the specific selection of case studies. Literature in both case study methodology and grounded theory offer recommendation on this.

Following the principles of the ‘collective instrumental’ case study technique, described by Yin (1998), the researcher needs to choose individual or ‘instrumental’ cases, possessing rival features important to the phenomenon under investigation (Bickman

Strauss, 1967). Snowballing is the sampling technique where the sample emerges via a process of reference (i.e. nominated participants) from one person to the next one (Burgess, 1993).

and Rog, 1998). This then permits cross-case comparison. The starting point of *case selection* therefore, is the identification of certain critical attributes/dimensions on which the phenomenon varies, which constitute the basis for comparing the different cases and making deliberate choices. If a chosen case is similar in the critical attributes to those not selected, it constitutes a *typical* case. Typical cases foster generalisation of findings. In contrast, cases that differ considerably from the norm, are called *extreme cases* and reveal the impact of certain factors (Yin, 1994). Also, a case could be used to *test a theory*, i.e. whether the outcomes agree with the theoretical expectations. Finally, the credibility of a theory can be increased, when it is supported by cases representing the *least likely instances*. Another fundamental aspect in case-study selection regards the identification of the *case boundaries*. According to Denscombe (1998, p.44), a case “needs to be fairly self-contained entity...and have fairly distinct boundaries”, in order to provide a clear understanding of what is contained or excluded from the case, and to avoid studying other phenomena (Yin, 1994).

According to the grounded theory recommendations for case-study selection, the researcher is advised to replace the logic of case replication (e.g. enumerating frequencies) with that of theoretical sampling that allows sampling and comparisons based on concepts (e.g. theoretical propositions) rather than cases or populations (Yin, 1994). Blaikie (2000, p. 254) explains why replication is incompatible with the ‘reflexive’ character of qualitative research: “researchers inevitably inject something of themselves⁴⁹ into the research process and, hence, into the outcomes. In addition, social situations are never sufficiently similar, across space and time, to make replications possible”. Grounded theory sets only one criterion for the selection of the initial site for fieldwork, that of the ‘relevance’, in contrast to the case-study methodology that requires a more detailed justification of cases as ‘typical’ or ‘extreme’ (Denscombe, 1998).

⁴⁹ Pike (1967) and Herre (1980) distinguish between the values of the researcher (“*etic*”) and those of the subject of the research (“*emic*”).

The notion of the theoretical sampling technique cannot be fully captured without referring to its key features and the guidelines for application offered by the literature. Particularly, grounded theory argues that a sample cannot be anticipated and firmly specified in terms of its size and included sites. Instead, it *emerges*, 'incrementally specified' (Walker, 1985) during the course of fieldwork. The researcher selects sites according to their (theoretical) 'relevance' to emerging categories and concepts, aiming to the further refinement and development of existing concepts and codes (maximise the "opportunity to learn" Stake, 1994, p. 243). In fact, the theoretical sampling approach takes a distinct position in its choice of being "responsive to the data rather than established before the research begins" (Corbin and Strauss, 2008, p.144). Moreover, Strauss and Corbin (1990) highlight the *cumulative* character of theoretical sampling, since it builds up on evidence from previous sampled sites, influencing the path of generating theory. The researcher is advised to reflect on any new evidence and revise the existing codes, categories and sampling criteria in the light of new understanding gained (Mason, 1996; Marshall and Rossman, 1999). What is observed in practice is an increasing *depth of focus* (Denscombe, 1998), since initially the sample is aimed to be as open and wide as possible for generating plenty of categories and codes. Gradually, the researcher recognises a few codes among the initial ones that are more crucial for the analysis, and the sampling of the remaining cases is driven by the more precise questions emerging during the analysis of previous observations. This rationale of theoretical sampling necessitates both *consistency* and *flexibility* (Denscombe, 1998). In other words, clear criteria for sampling, consistent with the single requirement to promote further the refinement and development of existing codes and concepts, are needed. Each procedural judgement and decision (e.g. the chosen criteria) has to be justified and their implications on the outcome of the sampling process need to be explained (Walker, 1985). Additionally, flexibility implies that the researchers need to be free to use the most fruitful data sources to respond to emerging questions during the analysis, and also "take advantage of fortuitous incidents that occur", when it is deemed 'relevant' and necessary (Corbin and Strauss, 2008, p.149). All these emerging opportunities, and avenues of investigation are hard to anticipate. A final concern for researchers in

theoretical sampling is to avoid the pitfall of selecting 'reinforcing' cases, which *a priori* affirm the theory that needs to further develop (Mason, 1996). By deliberately including 'contrasting' cases to the cases already sampled, this problem can be solved (Pidgeon, 1996). Overall, the essence of theoretical sampling is summarised in the notion of being concept-driven. This is a point stressed by Corbin and Strauss (2008, p. 144): "the researcher is not sampling persons, but concepts. The researcher is purposely looking for indicators ... (of) how concepts vary under different conditions". This variation allows the dimensions, properties and relationships of concepts to be revealed.

To address the above considerations, the literature advises the researcher to follow a circular process, that starts with data collection, followed by data analysis producing concepts and generating questions. The emerging questions drive the next round of data collection, and the iterative process continues until *saturation* of concepts and categories is reached (Glaser and Strauss, 1967). This means that all concepts are well defined and explained, since their properties, dimensions, variations and relationships are investigated in depth, so new findings consistently replicate earlier ones. However, complete saturation could never be achieved, thus in practice, theoretical sampling is deemed sufficient when the 'major categories related to the phenomena under investigation have been explored in depth and new data just confirms the concepts' properties, dimensions and relationships already identified. Then, the researcher accepts this level of 'theoretical saturation' and presents uncovered areas as limitations.

4.5.2 Selection of Cases for the Current Research

Having described the considerations and procedures involved in case-study selection according to the qualitative case study and grounded theory literature, this section sets out how a combination of the aforementioned guidelines for theoretical or purposive sampling was applied to the current empirical research. Overall, the research aims to describe the features of Greek agrifood SME networks and their evolution, explain the

implications for performance, both for individual members as well as the whole network. As may be apparent, not *all* business networks were of interest to this research.

The key balance to be struck when drawing the case boundaries, is one between using over restrictive and over loose definitions, because the former leads to selection of 'self-reinforcing' cases, while the latter could result in cases indistinguishable from other kinds of networks (Mason, 1996). So for current research, the first dimension for case selection was '*evidence of bottom-up networking initiative*'. If the case was the result of top-down involvement, for instance a quality assurance scheme established by local public developmental agencies, it was beyond the bounds. This did not mean however, that cases created by bottom-up procedures and included in the research could not participate in other top-down network initiatives, as part of their networking activity. A second baseline dimension for inclusion of a case in this research was the '*evidence of small and medium sized agrifood enterprises and a sufficient number of them involved in the network initiative under investigation*'. In practice, the demonstration of features such as small numbers of employees, and relatively low levels of turnover were necessary for justifying a company as an SME. If a case demonstrated a network leader, but the network had been initiated and governed by a large company, rather than SMEs, then it was felt inappropriate to choose it given the aims of the research. Additionally, it was important that a profound number of SMEs participated in the case network. Isolated SMEs, or the network of a large agrifood enterprise, were beyond the interest of this research. To refine further the definition of network boundaries, the approach of Carson *et al.* (2004) was followed, whereby 'marketing' was identified as the thematic anchor. Therefore, the case boundaries were drawn around SME networking initiatives that had some goal to transform a raw product for sale to end consumers commercially.

Having identified baseline dimensions of eligibility of SME network for this research, the next task was to identify the specific cases to be included in the study. For this, principles of the 'collective instrumental' case study technique were followed. *Two attributes* important to the phenomena under investigation were selected as the key

criteria for case selection. These were: (i) **apparent market performance** of the network and (ii) **level of product processing** undertaken by the network. *Apparent market performance* refers to the network's apparent commercial performance in the marketplace. A fundamental thrust of the literature on business networks, as highlighted in Chapter 3, is that such networks can improve the performance of member firms, including SMEs. However, as highlighted in Chapter 2, most SME networks in the GAS fail to perform well, and very few 'success stories' exist. Hence, for case study selection it was very important to choose cases on the basis of their performance, particularly, to include both strong and weak performance cases, so that their respective evolutions and features could be analysed and compared. The specification of 'performance' was complicated, in view of the abundance of different definitions and constructs that exist in the literature. *Level of product processing* concerns the occurrence of physical transformation from raw materials into finished products purchased by end consumers, distinguishing between processed and fresh products. 'Fresh' products are those involving no physical transformation. Previous studies have found that governance structures along supply chains vary heavily because of quality uncertainty in both raw materials and final products (Chappuis and Sans, 1999). This implies that agrifood networks can develop, evolve and influence individual firms' performance differently because of factors associated directly with the nature of the product. By capturing cases of both fresh and processed agrifood products, the level evolution, features and performance of the case networks could be analysed and compared, taking account of the moderating role of the physical nature of the product.

Further considerations in case study selection for this empirical research constituted the choice of specific agricultural sectors of the cases, and which part of the network should be the "focal point" of the case. In practice, the formal standardising/packaging stage of the case supply chains was chosen as the focal point, and the product sectors selected were apples and olives. The first decision reflected the need for a formally established trademark/brand of agricultural produce, in order to assess its market performance. Such a trademark is more likely to be held by standardising and packaging companies.

Additionally, the emphasis on the end products as focal points, rather than raw materials, was deemed appropriate for reasons of consistency and comparability across the case studies, offering also the ability to assess the value added to the products and the quality of inter-firm relationships within the supply chain. The second decision referred to the choice of olive oil and apples as suitable examples of processed and fresh products, respectively. As shown in Chapter 2, Greek agriculture production is predominately crop-oriented, with a ratio of 70-30 between the total production values of plant and livestock production respectively. Since cheeses, olive oil, wine and fruit juices represent the most common processed products, the choice of organic olive oil as an example of a processed product, instead of a meat product, was meaningful.

Following these specifications, a review of secondary data, including statistical reports of the national statistical agency, reports of the agricultural ministry and trade literature provided a list potential agrifood SME network cases. The great majority exhibited apparently weak market performance, unsurprisingly. Consequently, in line with case study methodology recommendations, cases of apparently strong market performance were classified as extreme instances (e.g. outliers), and expected to reveal crucial factors making this difference. Following the principles of 'theoretical sampling', sampling took place in phases; it was deemed good practice to select initially the cases of apparently strong market performance, and collect data. Their preliminary analysis produced emerging concepts and categories that were used as additional characteristics desired amongst sample cases, leading to the refinement of the choice of the next set of cases (Burgess, 1993), those of apparently weak performance. The ultimate goal was for the final sample to display a satisfactory variation of conditions under which concepts vary, and in turn to indentify the crucial conditions for network evolution. To increase the validity of the selection of the final two "strong performance" cases, an expert informant based in the Agricultural University of Athens reviewed the list of proposed cases studies. Particularly, **Blauel organic olive oil** and **Zagorin apples** are well-known high value products with strong brands, and are recognised as SME marketing 'success stories' in the Greek agrifood sector. Fotopoulous and Krystallis (2003) for example,

confirm the good customer reputation of the latter. From the data collection and preliminary analysis of the strong cases, a list of potential weak cases was generated. The gatekeepers in both strong cases also helped to identify the cases of apparently weak market performance in their sector. The 'bottom-up' networking initiative of SMEs in the same sector, and their apparently weak market performance, remained as key criteria.

So the final two weak cases selected were **Kefalas organic olive oil** and **Agia apples**, which indeed represent less well known products, lacking in brand reputation, market price and position. For Kefalas, the development trajectory of this case was linked to that of Blauel, therefore it served as an interesting and quite immediate comparison case. Key players of the Agia case appeared to play a role in the evolution of the network in the Zagorin Apple case, and strong interaction of the two products in the market place was also reported. Overall therefore, the chosen cases studies in each sector were interlinked, a fact revealed during the preliminary analysis of the two strong cases. **Thus, the selection of the two weak cases deliberately allows investigation of why the relative cases still have so different evolutionary trajectories and performances.** All four cases were located in regions with high production of the specific product. The region of Agia, in particular, has the highest production of apples in Greece. For all the cases, except for Agia, the product chosen was exclusively standardised by one local firm, which provided the focal point for the case analysis. Agia apples were standardised by more than 10 private firms and a cooperative located in the Agia region. So, the cooperative and the three largest private enterprises were selected as the focal point for the investigation of the Agia apple network. Table 4.2 summarises the four case studies included in this research according to the two main selection criteria and Figures 4.1 and 4.2 presents their geographical location.

Table 4.2: Case Studies Selected for this Research

<i>Level of Processing</i>	<i>Apparent Market Performance</i>		
		Strong	Weak
		CASE 1: ‘BLAUDEL ORGANIC OLIVE OIL’	CASE 2: ‘KEFALAS ORGANIC OLIVE OIL’
	Processed Product (olive oil)		
	Fresh Product (apples)	CASE 3: ‘ZAGORIN APPLES’	CASE 4: ‘AGIA APPLES’

Figure 4.1: Escalation Map: Cultivation of Apple Trees

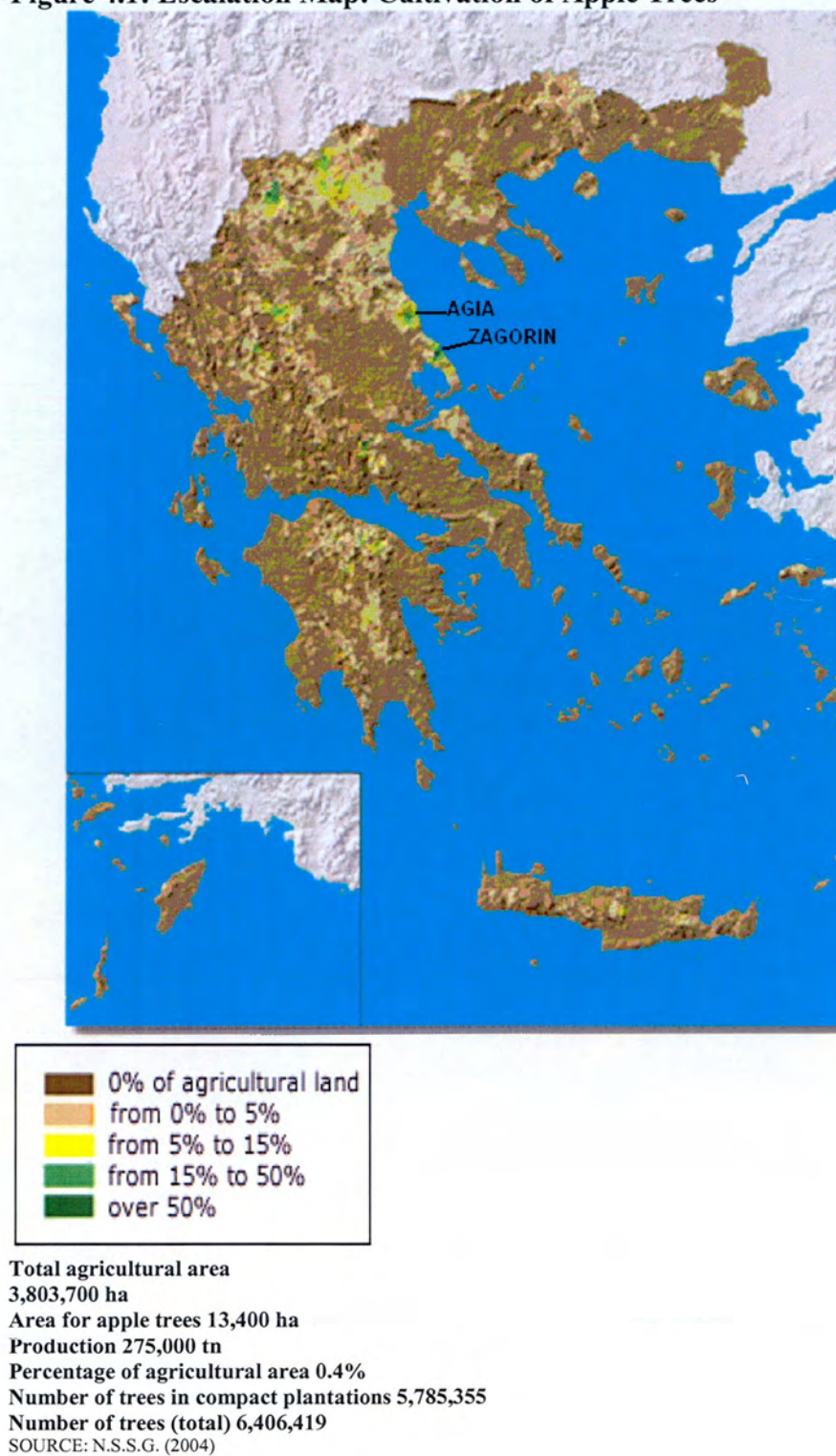


Figure 4.2: Escalation Map: Cultivation of Olive Trees for Olive Oil



- | | |
|-------------|-------------------------|
| Dark Brown | 0% of agricultural land |
| Light Brown | from 0% to 5% |
| Yellow | from 5% to 15% |
| Light Green | from 15% to 50% |
| Dark Green | over 50% |

Total agricultural area 3,803,700 ha
 Area of olive trees for olive oil 667,500 ha
 Production 1,947,000 tn
 Percentage of agricultural area 17.5%
 SOURCE: N.S.S.G. (2004)

4.6 Choice of Data Collection Techniques

In this section, the theoretical principles and ‘best practices’ of data collection are presented, followed by an account of the specific procedures executed for this empirical research, with justifications. Particularly, primary data were collected through semi-structured interviews and participant observations. Also, secondary data were used.

4.6.1 Theory of In-depth Interviewing

Literature describes in-depth interviews as ‘conversations with a purpose’ (Bingham and Moore, 1959), which assist the researcher in getting familiar with the interviewees’ perspectives, and understanding the subjective meanings that research subjects attribute to the events and phenomena. For the current research, the technique of in-depth interview was deemed desirable for exploring complex and subtle phenomena, such as SME network evolution, because interviewing unfolds its full potential when it is used for such phenomena (Pope and Mays, 1995). This is achieved by first shedding light on people’s opinions, feelings, emotions, experiences and priorities. So, their networking behaviour can be explained, by identifying what factors the interviewees regarded as crucial and why for network evolution. Second, interviews address sensitive issues such as why people reject collaboration with a specific actor, how they resolve conflicts or assess the sufficiency of capabilities, provided that the interviewee is encouraged to discuss these issues in an open and honest way. The possibility of the research to raise many ‘sensitive’ questions (e.g. ‘why do you reject starting inter-firm relationships with the particular actor?’) or issues related to power arrangements in relationships, was considered high. So, this indicated that in-depth interviewing was an appropriate research approach. Third, through interviews privileged and deep information from key players could be gained (e.g. gatekeepers, opinion leaders). This offered a ‘value for money’ benefit, because these key informants were deliberately selected as highly experienced specialists, whose testimony was expected to have high credibility. The current study sought to learn as much as possible from the ‘wisdom’ of leaders, network

initiators and managers. Additionally, the following advantages of in-depth interviewing were deemed as important reasons for selecting this technique: flexibility to make adjustments to the line of inquiry, high response rate and validity since through the direct contact the data accuracy and relevance could be checked as collected. Finally, interviewing was suggested by Berent (1966) to be rewarding, even therapeutic for the interviewees, because they had the chance to share and reflect on experiences, to a non-critical listener.

The classification of different types of interviewing distinguishes between structured, semi-structured and unstructured interview guides. This distinction was helpful in deciding on the extent to which the format of questions (e.g. wording and sequence) needed to be pre-determined (Patton, 1990). Semi-structured interviews were employed for this empirical research, which means that a 'checklist' of crucial issues provided the direction of the discussion (Patton, 1990). These crucial issues/themes stemmed from the research objectives. McCracken (1988) compared this 'checklist' (or interview discussion guide) to a 'route map', which determines the boundaries of the areas to be covered, without specifying the exact itinerary. However, the use of open questions minimises the rigidity of the questioning framework (e.g. fixed topics and terms) and gives flexibility to the researcher to explore emerging topics, which were not foreseen or anticipated as relevant before fieldwork (Strauss and Corbin, 1990). This reflects the 'discovering' rather than 'checking' character of semi-structured interviews (Denscombe, 1998). Open questions also facilitate the description of the phenomenon under investigation from the perspective of the interviewees, who are encouraged to express their own experiences, thoughts and decision making processes in their own words (Jones *et al.*, 1985; McCracken, 1988). The rationale here is to capture both the interviewees' perceptions or subjective meanings, and how these are constructed over time. Overall, semi-structured interviews were deemed most appropriate for data collection with respect of network evolution, on the basis of offering both some consistency and flexibility in the areas/topics covered across the different interviews thanks to the initial 'checklist' of crucial issues devised, whilst offering some freedom in

adding new emerging perspectives. Moreover, networking behaviour and choices were expected to not always be fully conscious, so the interviewees were likely to make their 'own discoveries' about the way they behaved, through the interview process stimulated by the researcher's questions. Overall, the balance between structure and ambiguity in the interview construction needs to be kept. This means that the discussion guide is subject to ongoing modifications resulted from the advances in the researcher's understanding of the phenomenon as interviewing proceeds (Mason, 1996).

In terms of best practices in interviewing, the literature highlights the need for the interviewer to be carefully prepared and capable of adjusting plans as things progress, given the fact that interviews are 'live human' experiences, without the possibility of exact replication. First, the researcher is advised to establish a degree of trust and rapport, so the interviewee does not feel suspicious or threatened. So, guarantees of confidentiality and respect of the interviewee's desire to stop telling more are necessary. According to Denscombe (1998, p.184), since some attributes of the researcher's personal identity including age, sex, ethnicity, accent and occupational status, cannot be altered, this identity is argued to affect "the amount of information that people are willing to divulge and their honesty". He explains that this impact depends on who is interviewed and the nature of the topic being discussed. For instance, the interviewees may experience negative feelings (e.g. embarrassment, discomfort, defensiveness), and modify their responses according to what they believe the researcher wants to hear. To minimise this effect, the interviewer ought to expose a range of social skills, as being passive, polite, receptive and neutral. In this way, the interviewers try not to antagonise or upset the interviewee, so they dress similar to the interviewees (Fontana, 1977) and show respect. This requires researchers to remain neutral, listen, learn and not preach. Crucially, having a non-judgemental attitude means the interviewer should not reveal emotions such as aversion, surprise, or approval. This ensures that the interviewee speaks sincerely without holding back information. Ideally, the interviewer keeps an unobtrusive profile, minimising interruptions only to the necessary ones e.g. to return to a topic or change subject (Berent, 1996).

In terms of the in-depth interview itself, best practise is process as follows. Initially, the research aims and the researcher's interests are introduced, the interviewee's permission is sought to record the conversation, and the researcher provides assurance about confidentiality. Simultaneously, the preparation of recording equipment and convenient sitting arrangements are made. Then, the interview commences with questions collecting background information and creating a relaxed atmosphere (Patton, 1990), as the interviewees present themselves, and their role. Gradually, the interviewer leads the discussion to the key subjects under investigation, by raising broad and open questions without imposing any assumptions or the researcher's preconceptions about the subjects, but encouraging the interviewees to elaborate their 'own' experiences and perceptions. McCracken (1988) called these 'grand tour' questions, followed by prompts, probes and checks until sufficient information is gathered for all the crucial issues listed in the guide. During this core phase of interviewing, the researcher needs to be very attentive in monitoring the progress, keeping eye contact, and observing non-verbal communication clues. Particular tasks are to cover the key issues/themes within the allotted time, identify and confirm the interviewee's key points and their properties, and 'read between the lines', in other words deciphering what is the essence of each argument made, or equally important, what is *not* mentioned (Denscombe, 1998). Additionally, the researcher's 'detective' role includes the use of probes for discovering what the inconsistencies in opinions and feelings might reveal, and checking for 'boasting' or 'fob-off' answers, aiming just to please the interviewer (Denscombe, 1998). Furthermore, the researcher needs to clarify whether the views expressed are 'fixed', long-existing, or if they reflect events immediately prior to or after the interview. In the final phase, the interviewees are invited to raise any relevant points that they want to discuss further, and are thanked for their contribution in the research.

Drawing from literature, the researcher needs to be aware of certain challenges encountered in in-depth interviewing. For instance, if the interviewee is a public figure, with or without intention, they may project their 'solid public face' to reinforce their

power or status and drive the interview discussion to where they want to go (Tregear, 2000). Then, the interviewer needs to recognise these 'faces' and go underneath the surface. They may have to address behaviours such as bullying, being mistrustful, sceptical, or agreeable, especially with 'elite' persons, whose power is widely recognised within their community, and skills in manipulating the interpersonal dynamics are high (Dexter, 1970). Otherwise, the researchers risk attaching greater weight to data from 'elite', articulate interviewees over others lacking these features (Miles and Huberman, 1994). For this, the way in which the researchers present themselves (e.g. as 'academic', 'native', or 'learner') and the interview (Fontana and Frey, 1994) is crucial. The right balance has to be kept between formality and informality in the interviewer-interviewee relationship, so sensitive topics can be discussed but without causing tension or anxiety to the interviewees. A helpful practice constitutes use of fieldwork notes, including information relating location, atmosphere, clues about intentions behind the statements, comments on non-verbal communication, circumstances surrounding the interview and events that might have influenced the interview.

4.6.2 Procedures for In-depth Interviewing in the Current Research

On average, 29 depth interviews were conducted per case, giving a total of 118 interviews across all four cases, of which the great majority were face-to-face interviews (in Greek), each lasting around two hours. Two phone interviews were conducted (in English) only for the Blauel case study because its customer base was located abroad. All interviews were tape recorded, with 48 recordings (40%) being transcribed for full textual analysis. Actors from all levels in the case study supply chain were interviewed, from farmers and processors at the upstream end of the chain, to wholesalers, distributors and retailers at the downstream end. For all four cases, the value chain was found to exceed the supply chain, including networking linkages built to permit exchange of information, expertise, and other kinds of institutional support. Thus, interviews were also conducted with non-supply chain actors that key informants

indicated as influential to network evolution, such as representatives from local public agencies, trade-associations or inter-professional bodies. Inevitably, the majority of interviews were conducted with informants at the farmer levels because these were the most numerous actors in the chain. Data collection for the case studies was conducted in two main phases, each phase lasting approximately three months and involving residency in or near the geographic regions in which the networks were located. Table 4.3 summarises the number and activity profile of the interviewees per case for this empirical study.

The selection of interviewees was based on the principles of theoretical sampling, as described in Section 4.5.1. Thus, the initial interviewees per case study were chosen with the help of a gatekeeper, according to the different attributes raised in the gatekeeper's interview as crucial for the network evolution. This *sampling frame* was "guided by the research objectives and conceptual framework" (Miles and Huberman, 1994, p29). For instance, for farmer interviewees, these attributes related to their key role within the network initiative, farm size, cooperative spirit, and commitment to common agreements. For the distributor interviewees, the selection criteria included their commercial significance to the focal point enterprise and the quality of their relationships. The key concern was to select the most helpful attributes in identifying crucial differences in the behaviour of the participants within the network and to assess the impact of these differences on network evolution. For this reason, it was explicitly explained to the gatekeepers how crucial it was for the quality of the research to avoid suggesting only 'reinforcing' interviewees. Instead, interviewees with both positive and negative attitudes towards the network were required, for instance actors who tried the network and rejected it or those who refuse to participate. Such actors could give valuable insights into network evolution. Persons identified as opinion leaders were also preferred. Having conducted these interviews, a preliminary analysis was conducted, which helped to refine the precise sample profile by identifying gaps in knowledge (e.g. poorly developed categories), emerging contradictions or areas that were not clear.

Table 4.3: Summary and Profile of case Study Interviewees (n=118)

<i>Interviewees' activity profile</i>	<i>BLAUDEL</i>	<i>KEFALAS</i>	<i>ZAGORIN</i>	<i>AGIA</i>	<i>Total</i>
Farmer, member of the collective scheme	11	4	7	3	25
Farmer, non-member of the collective scheme	3	2	1	8	14
President of the cooperatives' board of directors (farmer)		1	2	1	4
Members of the cooperatives' board of directors (farmer)		2	3	2	7
Leader of the collective action	1	1	1		3
Owner of the standardisation/ packaging unit	1			3	4
The general manager	1	1	1	1	4
The marketing manager	1				1
Employee responsible for the relationships with farmers	2				2
Olive oil processor	1	1			2
Import agent	1	1			2
Wholesaler	1	1	5	4	11
Multiple retailer		1	4	3	8
Small neighbourhood fresh food retailer			4	4	8
Open market merchant			3	3	6
Representative of local municipality	1	1	1	1	4
Representative of local public agricultural agency	1	1	1	1	4
Representative of Thessaly periphery agency			1(for the 2 apple cases)		1
Representative of Peloponnesus periphery agency	1(for the 2 olive oil cases)				1
Representative of 'top-down' network initiative*		1	1(for the 2 apple cases)		2
Facilitator of 'bottom-up' network initiative**	1(for the 2 olive oil cases)		1(for the 2 apple cases)		2
Editor of the sector magazine***	1(for the 2 olive oil cases)		1(for the 2 apple cases)		2
Expert informant of the Agricultural University of Athens		1 (for the four cases)			1
Total	26	21	36	35	118

* 'Top-down' network initiatives: Kefalas Ltd participated in 'Local Quality Agreement for Parnonas Area's Product and Services. The Management Agency of the Thessalia Periphery failed to promote horizontal cooperation between the Zagora Apple cooperative (ZAC) and the Agia Apple Cooperative (AAC).

** 'Bottom-up' network initiatives: Blauel Ltd and Kefalas Ltd belong to 'The Association for Greek Agrifood Products of Certified Quality'. The ZAC and Poulis Ltd (Agia case) belong to 'The Association of Greek Packers of Fresh Fruits and Vegetables'.

*** 'Olive and Olive oil' and 'Fruit News' magazines respectively

Thereafter, theoretical sampling was practiced to gather data to 'saturate' concepts and their categories. For this purpose, the researcher returned to old sites. For example, in the Blauel case, it was necessary to return to investigate the differences in perceptions between farmers from Saidona and Neochori villages, and between farmers located in the Messenia and Laconia prefectures. Also, the researcher returned to assess how the failed effort for training Saidona farmers affected Blauel's attitude towards helping farmers. A second interview was conducted with all the gatekeepers after interviews were finished per case, to answer all the questions emerging. Furthermore, the interviewees were invited to play an active role in defining the network boundaries, by specifying all those actors that had a crucial contribution in 'adding value to their product'. This includes nominating actors outside the supply chain, if the interviewees felt that it was necessary.

Followed the principles of conducting interviews presented above, the researcher first established a relationship with the interviewee, inspiring trust and rapport. The information provided to the interviewees regarding the research nature, in the initial personalised letter and phone calls or discussions, was balanced and avoided the provision of excessive detail. The research interests were explained only broadly, referring to the inter-firm relationships with other SMEs, how and why these evolve, avoiding mention of technical terms such as 'network', 'context', 'structure', 'governance', 'external institutional support'. Confidentiality guarantees were given and permission for recording the interview was always asked for in advance. Regarding the researcher's identity, she presented herself as a PhD student of Edinburgh University, Business School, with a dress code 'fitting to' the surroundings (e.g. office, farm, or wholesaler markets). When 'elite' persons e.g. managers, or those with a recognised role in the local community were interviewed, a professional impression was given.

The initial interview guide used for this empirical research (Appendix II) included five topic headings, reflecting the focus of research objectives: background/personal information of the interviewee; description of network features; description of network

evolution; its explanation, its impact of evolution on the performance of the SME and the whole network. For each topic, the interview guide had many sub-questions written in common everyday language, with some of them including also examples of answers. This theme 'checklist' was not to be followed closely, but as an 'aide-memoire' during the interview. The ultimate aim was that the researcher would be prepared with a lot of *probes and prompts*, which avoided academic terminology, to enable a variety of areas to be covered, even if the interviewee did not raise those issues. This was to ensure consistency between the interviews. However, the researcher tried to avoid over-directing or influencing the nature of the interviewees' testimonies. Instead, an effort to understand the interviewee's own perceptions and terminology was made, by presenting herself as a 'keen learner' rather than as an 'expert', who would judge them. After the first interviews with actors from each stage of the supply chain in a case, key themes became easier to spot and comparisons were made, therefore the later interviews became more focused, explanatory, and less exploratory.

Reflecting on conducting semi-structured interviews, the experience was challenging and rewarding for both the interviewees and the researcher. Indicatively, despite the one-hour anticipated length of the interview, all participants showed great generosity in both time and details given, enjoying the opportunity to express their thoughts, emotions, and concerns on the topic. Non-verbal communication constituted a good indication of their intentions, motives, and how deeply they believe in ideas explained. The richness and variety of perceptions explored boosted confidence in applying the research findings and providing policy-relevant recommendations. The major challenges faced by the interviewer were first to make the interviewees feel that they were not antagonised or did not need to defend. Second, when tensions arise during the interview, the researcher tried to deal with them in a productive way. In practice, the interviewees were invited to look at the things in more abstract and long terms, become detached from everyday emotions, make links with issues raised previously in the interview, and identify or re-define boundaries and limitations of the concepts discussed. An atmosphere of discovery of human behaviour and perception formation processes was created. The researcher's

role was to keep the interviewees focused, asking simple questions, sometimes pretending that the argument and its underlying assumptions were not fully understood, in order to motivate them to reveal the whole range of their thoughts/feelings and the perception formation process. The same technique was used when the researcher had evidence that the interviewees tried to hide some aspects. In practice, through questions, these interviewees were led to reveal 'by their own' contradictions and inconsistencies in their conclusions, and afterwards, be asked their opinion about the revealed contradictions. The researcher also used tactical changing of the subject, when it was deemed necessary, returning later when the interviewees were more relaxed or confident to elaborate on the topic. At the same time, attention was given to not interrupting and over-directing the discussion, or creating certain research expectations that the interviewees felt pressure to fulfil. Overall, the challenge for the researcher was to balance encouragement of the interviewees to express themselves freely and in depth, with keeping them on track and capable of facing emerging tensions in a productive way.

Especially in the Zagorin apple case, where the cooperative has a long history and has experienced some trust shocks, when some ex-presidents of the cooperative board were interviewed, the researcher needed to demonstrate all the social, intellectual interview skills mentioned above. Their tendency and ability to construct 'solid public faces' and legitimate their previous actions and decisions made it challenging to 'get underneath' this surface. Most of them had interpreted the current research, as a journalist's interest in the ZAC's 'success story', therefore they wanted to excessively emphasise their contribution to it. In practice, evidence derived from the secondary data (e.g. historical and statistical data) or other interviews were used to reveal any contradictions between their claims and reality, or efforts to 'hide' something. They were asked questions away from the typical story of 'their own considerable contribution in the ZAC's success', but relevant to the research topics.

4.6.3 Theory of Participant Observation

The second form of data collection chosen for the case study research was participant observation, where “the observer participates in the daily life of people under study” (Becker and Geer, 1957, p.28). According to Denscombe’s (1998, p.218) classification, three types are identified: *total* participation when the researcher’s role is kept secret, *participation in normal settings* when its role is known only to the ‘gatekeepers’, and *participation as observer* where the researcher’s identity is openly recognised. In the latter role, the researcher is “‘shadowing’ a group through normal life, witnessing first hand and in intimate detail the culture/events of interest”. In each case, the first and urgent task after observation is for the researcher to produce field notes in the format of written or tape-recorded memos. Selecting the appropriate type of participant observation leads to the following dilemma: keeping the researcher’s identity secret or not. Since “those involved may deliberately hide or disguise certain ‘truths’ on occasions when they are ‘under the microscope’” (Denscombe, 1998, p.217), it is reasonable for researchers to control their identity. However, then the researcher cannot ask questions, and ethical problems arise such as the absence of consent of those observed, and issues of deception by the researcher.

As may be appreciated thus far, participant observation is a method offering the researcher the opportunity to get insights into a particular culture, situation or event, that are privileges granted only to those who experience it ‘from inside’ (Denscombe, 1998). For instance, social subjects are not always aware or capable of articulating all the crucial elements of social interactions under investigation (Corbin and Strauss, 2008). The opportunity of gaining ‘inside’ experience is vital for understanding the network evolution phenomenon and its dynamics. It is accompanied with other advantages of participant observation over other qualitative research methods. First, *non-interference* refers to the fact that the natural setting is better preserved, since the research subjects are not aware of being observed. Disruption is kept to a minimum, permitting the researcher to see things as they normally occur. When the participant observation is

followed by interviews, the research has the opportunity to confirm whether the interviewees' claims about their behaviour match the observations of actual behaviour made earlier (Corbin and Strauss, 2008). For the current research, participant observation was very helpful in investigating the role playing and power relationships within a group, and in identifying the opinion leaders within a network. Second, *ecological validity* refers to the increased validity of data collected, since the method applies well to context-sensitive phenomena, such as network evolution. Finally, participant observation also offers other desirable features linked to qualitative research approaches: emphasis on depth rather than breadth of data, a holistic perspective, a focus on social processes and the protagonists' viewpoint, and tolerance to complexity. Overall, studying interaction between groups within a network over time was expected to have aspects hidden for an 'outsider', which the researcher needs to experience herself to fully capture them. Hence, participant observation was viewed as a highly desirable form of data collection for the current research, as a support to in-depth interviewing.

4.6.4 Procedures for Participant Observation in the Current Research

Table 4.4 summarises the events per case study for which participant observation took place in the current research, for example negotiation processes with customers and associations' and co-operatives' meetings. Where it was possible, the identity of the researcher was kept secret from the participants, for example, in negotiations between network members and multiple-retailers, general cooperative meetings for apple cases and the training of farmers with the Blauel case state why the secretiveness was desirable. However, this was impossible in cases where the interviews had been done first, so the participants knew the researcher's role, for example when the researcher accompanied farmers in the Zagorin case on a trip to the Bolzano area. The researcher produced field notes as early as possible after each observation. These included the summary of key concerns/issues mentioned by the participants, their power relationships and games, their negotiation skills, what they put emphasis on and what they tried to 'hide'. Non-verbal communications, the atmosphere of the discussions and observations on how new information was diffused, accepted or not were also written down. Finally,

the researcher paid attention to observing the general meeting procedures and practical problems faced and the participants' reactions (e.g. to innovation proposals or offensive speeches). Also, the extent to which the actors communicated and justified their problems/ viewpoints to other network members was observed. The selection of sites and events for participant observation followed the grounded theory principles regarding theoretical sampling, as described in Section 4.5.1, subject to availability and convenience. Primarily, there were chosen events characterised by an intense interaction of a large number of network members, such as a meeting of cooperatives or a training event. Especially, in the Zagorin apple case, the researcher took advantage of a "fortuitous incident", the educational trip of the Zagorin farmers to the Bolzano area of Italy. This opportunity was instrumental in critically evaluating the Zagorin, noticing the differences in structure, governance and culture compared with the Italian apple cooperatives, and understanding the Zagorin's weaknesses. Furthermore, the researcher experienced first-hand the variety of Zagorin farmers' reactions and attitudes towards innovation, how they processed and diffused new information, and the power games within the ZAC. Issues related to network management capabilities and the insufficient external support in the Zagorin apple case became easily identifiable.

4.6.5 Theory of Collecting Secondary Data

The third form of data collection used in the current research was secondary data collection, which comprises primary data, both qualitative and quantitative, collected by other researchers or institutions (Bryman, 2001) for answering different research questions, or similar questions at different time periods. Typical examples of secondary data are (national) surveys, censuses, official statistics, data archives, industrial studies, scientific or traditional books and articles or journals. These raw data can be used by secondary users (Blaikie, 2000) offering them numerous advantages, summarised by Dale *et al.* (1988). First, the researchers save costs and time, avoiding the step of data collection (Stewart and Kamis, 1984). Second, some official statistics offer national-wide samples, geographical spread and the opportunity to make longitudinal or cross-cultural analysis.

Table 4.4: Participant Observation Events for the Current Research

<i>Participant Observation Events</i>	<i>BLAUDEL</i>	<i>KEFALAS</i>	<i>ZAGORIN</i>	<i>AGIA</i>
Negotiation processes with farmers	✓	✓	✓	✓
Negotiation processes with small retailers			✓	✓
Negotiation processes with wholesalers			✓	✓
Negotiation processes with multiply retailers	✓		✓	✓
Association meetings	✓ (for the 2 olive oil cases)		✓ (for the 2 apple cases)	
Cooperative's general meetings		✓	✓	✓
Educational trip of farmers to Bolzano area			✓	
Educational training of farmers	✓			

Third, alternative interpretations may emerge from the analysis of secondary data. However, the researcher needs to be aware of limitations summarised by Blaikie (2000). First, the researcher would need some extra time to get familiar with the data structure, whose complexity may be high, since other people have collected and analysed them. A second fundamental drawback is that the data quality may vary and should not be taken for granted, especially when the research objectives and aims vary considerably, “a great deal has to be taken on faith” (Blaikie, 2000, p.185) Finally, key variables of interest to the current research may be absent in the available secondary data. Issues of reliability and validity of data also arise, when it is taken under consideration the changes in key

definitions, policies, and settings related to the phenomena under investigation over time. Such changes can dramatically affect which variables are included and how these were measured or interlinked (Bryman, 2001). Besides, there is a time lag between the time the data is collected and archived. Generally, the more distant researchers are from the data collection, the less control they have over data quality and the less certainty they have on data appropriateness for the current project (Blaikie, 2000). Furthermore, when the analysis and explanations given for these primary data by other researchers are also taken under consideration, these are called *tertiary* data. The researcher needs to be even more cautious, as Blaikie (2000, p.185) explained, “analysts can adopt an orientation towards the original data, and they can be selective in what they report. In addition, there is always the possibility of academic fraud.”

4.6.6 Procedures for Collecting Secondary Data in the Current Research

Table 4.5 summarises the sources of secondary data used per case study for the current research. The depth interviews were supplemented by scrutiny of documents such as proceedings of cooperatives’ general meetings; local industry statistics and history; relative scientific papers and contracts. Responding to the aforementioned considerations with respect to limitations of secondary analysis, the researcher treated these sources with caution. She tried to identify the aims of each document, the qualifications of its writer, how the data variables were defined, methods of data collected and analysis used. Attention was paid to assessing the originality of the data, whether a certain orientation towards them was adopted, omitting ‘outliers’ or contradictory and negative evidence. Some of the secondary data (e.g. proceedings of cooperatives’ general meetings, contracts, a cooperative’s memorandum) were documentation of the operation of the institutions under investigations, i.e. private firms or cooperatives, and these provided historical insights into the way these organisations performed and evolved over time. This background information offered the opportunity to the researcher not only to check the accuracy of the retrospective accounts of events

given by the interviewees, but also to capture the changes in the actual ‘words’ and ‘symbolic meanings’ attached to them over time. 4.7. Execution of Data Collection and Analysis

The next set of methodological decisions centres on the actual execution of data collection and analysis. For this study, the principles of grounded theory were followed.

4.7.1 Principles of Grounded Theory

Grounded theory methodology is designed to guide researchers in generating theories, rather than testing them or providing descriptive accounts. The term ‘grounded’ conveys that the theory is always traced back to the data from which it is derived (Strauss and Corbin, 1994). It is dedicated to replacing ‘armchair theorizing’, where abstracts of ideas are first developed by the researcher and afterwards checked with empirical data, with a systematic interactive process between data collection and analysis which has a good ‘fit’ with the ‘real’ world. “Grounded theory is (about) what it is, not what should, could or ought to be” (Glaser 1999, p.840). The interactive character of grounded theory stems from the *constant comparisons* (Glaser, 1965; 1967) made between the existing findings (e.g. emerging codes, categories, concepts) and new data “to see *if* they fit, *how* they might fit, and how they *might not* fit” seeking alternative explanations (Strauss and Corbin, 1994, p. 279). By identifying similarities and differences, distinguished categories with their properties and dimensions are revealed (Corbin and Strauss, 2008).

Grounded theory has its roots in pragmatism⁵⁰ (Corbin and Strauss, 2008), which evinces a profound respect for ‘practical’ rather than ‘abstract’ knowledge and truth (Denscombe, 1998), criticising the distance between knowledge and everyday action. It is argued that a theory is valuable only if it addresses real practical needs (Dewey, 1929;

⁵⁰ Pragmatism has its roots to Symbolic Interactionism (Mead, 1956; Corbin and Strauss, 2008), which also belong to the Interpretivism approach (Schwarndt, 1994). According to Corbin and Strauss (2008) and Schwarndt (1994), the theorists of pragmatism were Dewey (1922; 1925; 1938) and Mead (1934; 1938), while the theorists of symbolic interactionism were also Mead, followed by Blumer (1969).

Table 4.5: Summary of Secondary Data Collected per Case Study

<i>SECONDARY DATA</i>	<i>BLAUDEL</i>	<i>KEFALAS</i>	<i>ZAGORIN</i>	<i>AGIA</i>	<i>GENERAL FOR THE STUDY</i>
CAP					✓
EU legislation for food safety and quality					✓
Studies on problems caused by liberalisation of CAP and of 10 new EU members' unification					✓
Technical information of specific agrifood production	✓		✓		
Studies on local and international food consumption patterns (usually inelastic demand) and trade situation					✓
Data about organisational and labour market factors (e.g. possibly, family-owned SMEs, low labour mobility, lack of R&D and marketing facilities)	✓	✓	✓	✓	
Agrifood product nature (perishability, short storage period, climate-regional specificity, low decision flexibility due to less predictable production volume, quality, future demand and price)	✓	✓	✓	✓	
Other social-economic factors	✓	✓	✓	✓	
Media coverage	✓		✓		
Local industry statistics	✓	✓	✓	✓	
Association or company proceedings		✓	✓	✓	
Local industry history	✓	✓	✓	✓	
Studies on impact of technology innovation (new plant varieties, fertilisers)					✓
Proceedings of cooperatives' general meetings		✓	✓	✓	
Contracts with farmers / Cooperative's memorandum	✓	✓	✓	✓	
Contract with wholesalers and retailers	✓	✓	✓	✓	
Scientific papers relative to the case study	✓		✓		
Internal Newsletter	✓				

Corbin and Strauss, 2008), and is meaningful to the protagonists concerned (Locke, 2001). Grounded theory was originally conceived by Glaser and Strauss (1967) against the deductive methods of science. However, later the two authors followed different intellectual paths, with Glaser (1978; 1995; 1999) moving in the inductive (positivism) direction and Strauss (1987; Strauss and Corbin, 1990; 1998) adopting the abductive (interpretivism) approach. The latter was followed for the current research in line with the reasons justifying the choice of abductive research strategy (Section 4.4.1).

Grounded theory accepts that knowledge (i.e. meanings) is a product of humans' ongoing action/interaction (Dewey, 1929; Mead, 1938). As Blumer's (1962) stated

"human beings interpret or 'define' each other's actions instead of merely reacting to each other's actions. Their 'response' is not made directly to the actions of one another but instead is based on the meaning which they attach to such actions. (p.19)". ... "The actor selects, checks, suspends, regroupes, and transforms the meanings in light of the situation in which he is placed and the direction of his action...meaning are used and revised as instruments for the guidance and formation of action (p.5)".

This implies that humans interpret and give meaning to environmental stimuli, before responding to them, and in this way their purposeful actions also shape the conditions (e.g. institutions) that affect changes in behaviour. Particularly, their actions generate new meanings (Mead, 1934) and as a consequence, may render the used routines of behaviour no longer efficient (Corbin and Strauss, 2008), fuelling further actions/interactions. Additionally, variation in actions/interactions to similar conditions is argued to stem from different meanings given to them by humans (Corbin and Strauss, 2008). Therefore, researchers inspired by grounded theory are much concerned with discovering "reciprocal changes in patterns of action/interaction and in relationship with changes of conditions either internal or external to the process itself" (Strauss and Corbin, 1994, p. 278). This focus on *human interaction* and *particular settings and conditions* that surround events/situations/problems, to which humans respond through their action/interaction (process), was suitable for exploratory research on SME network evolution. Moreover, Strauss and Corbin (1990) launched a 'paradigm' of *conditions-*

inter/actions-consequences to assist researchers in identifying contextual factors (i.e. structure) and relating to process⁵¹ (Corbin and Strauss, 2008). They further elaborate this paradigm via a conditional/consequential matrix. In this matrix, action/interaction is centrally located and surrounded of circles, one inside the other, that represent the various conditions affecting it, starting from *micro* conditions that are *closer* to individuals in the inner rings and gradually moving to the outer rings that represent *macro* conditions of the national and international environment. Both these tools focusing on context and process could be instrumental in uncovering the complexities of SME network evolution, a phenomenon embedded in its context. Furthermore, grounded theory is regarded as well suited to small-scale projects, especially those using qualitative data, open-ended questions and non-structured interviews (Denscombe, 1998). It permits the use of various data and methods for their collection and analysis (e.g. types of software). Qualitative data analysis becomes further systematised using N-Vivo software (Gibbs, 2002). Finally, key advantages of grounded theory for the current research were its flexibility in selection of sample (*theoretical sampling*) and its iterative process between data analysis and gathering. Drawing from the literature, the constant comparisons of the theory shaped from the existing data with the emerging explanations from the new data collected, until the *theoretical saturation* of concepts (see Section 4.5.1), leads to a “conceptually dense” final theory (Strauss and Corbin, 1994, p.278) that confidently ‘fits’ with the reality it describes. Crucially, to avoid ‘nasty surprises’, grounded theory researchers pay much attention to not forcing the data selection to ‘fit’ the theory, as may happen sometimes in the process of testing a theory when ‘outliers’ are excluded (Denscombe, 1998).

Under investigational approaches based on grounded theory, the key concern is to generate theory that is shaped by the data. However, it would be utopia to consider that researchers enter the field without any preconceptions and expectations, usually based

⁵¹ “Process demonstrates an individual’s, organisation’s, and group’s ability to give meaning to and respond to problems and/or shape the situations that they find themselves to be in through sequences of action/interaction, taking into account their readings of the situations and emotional responses to them.” (Corbin and Strauss, 2008)

on their professional background and familiarity with the relative literature. It is neither feasible nor desirable to ignore the theoretical literature. On the contrary, it can facilitate theoretical sampling and comparison making, by indicating some crucial but salient properties and dimensions on which data can be compared. However the literature should not be used as data per se (Corbin and Strauss, 2008). Knowledge of literature strengthens 'theoretical sensitivity' by raising questions such as 'are the emerging concepts truly derived from data or is the researcher imposing them on data?'; 'how does an emerging concept differ from those existing in the literature?'; "why is what I observe different? Are conditions different?". Furthermore, the literature may be used by the researcher to generate questions for initial interviews and observations, which later can be modified during the interactive process of data gathering and analysis. Finally, Corbin and Strauss (2008, p.37) argue that research based on grounded theory can provide both findings that "confirm" and "contrast". Contrasting findings illuminate "where the literature is incorrect, simplistic, or partially explains a phenomenon". Crucially, researchers have to treat literature or personal experience not as a set of rigid concepts and directives, but as a starting point to their investigation, providing tentative ideas and guidelines, which are not fixed or necessarily correct (Malinowski, 1984). On the contrary, the need for qualitative research exists as long as there are new concepts to be discovered, and thus it is neither feasible nor desirable to fully anticipate the problems and concepts derived from data (Corbin and Strauss, 2008).

Through theoretical sampling and constant comparisons, a large body of textual data is collected. To systematically analyse them, Corbin and Strauss (2008, p.198) advise the researcher to follow three particular analytical steps, whose distinction is artificial but facilitates the explanation of the analytical process. First, there is the phase of *open* coding, where descriptive tags are attached to the data, linking them to an idea. In fact, researchers search for recurring 'coherent' themes or patterns that encapsulate potentially relevant and crucial features of the phenomenon under investigation. The aim is to "discover, name ... and develop categories in terms of properties and dimensions" (Strauss and Corbin, 1990, p.181). The next phase comprises *axial* coding, where the

researcher scrutinises the existing codes to reveal their interrelationships, integrate them under broader and inclusive headings, representing more abstract codes and developing a hierarchy among categories. *Selective* coding is the final phase, where core open and axial codes are selected as vital for illuminating complex phenomena, and concepts are developed. Concepts constitute the building blocks that encapsulate the essence of crucial aspects of phenomena (e.g. the relationship between different categories), and serve to illustrate the analyst's understanding of what was conveyed by the data. As Corbin and Strauss (2008) note, in order to build a theory, a list of concepts is not enough. On the contrary, the researcher needs to interrelate them into a unified explanatory scheme that gives a coherent story about the phenomena studied. Close attention is required, so all concepts and the emerging theory remain firmly rooted in the data ('grounded'). To address these considerations, analysts are advised to write memos, where their analytical thinking process, or "internal dialogue" is explicitly recorded, providing a tangible documentation of what, how and why decisions were taken, entailing what actions and feelings (Strauss, 1987, p.10). Memos not only enable analysts to track how a theory was constructed out of the data, and boost their creativity and imagination, but they also force them to reflect on the coherence of their logic (Corbin and Strauss, 2008).

4.7.2 Execution of Data Collection and Analysis in the Current Research

Following the principles and guidelines of grounded theory derived from literature, the execution of data collection and analysis for the current research was as follows. All interviews were tape recorded, with 40% of them being fully transcribed and the rest subject to careful note-taking. N-vivo software was used to support the analytical process of coding, categorisation and constant comparison. Specifically, the N-vivo software was used to store, code, and retrieve the data, speeding up the process by avoiding manual 'copying and pasting' of text chunks under codes. Crucially, all the analytical processes of ground theory generation (e.g identifying themes and relationships, attaching codes, drawing mental maps and matrices, making conceptual

decisions, constructing explanations) were done by the researcher to avoid ‘over-relying’ on software packages (Tesch, 1993; Richardson and Richardson, 1994). As Denscombe (1998) warns, computer software can excessively focus on the literal content of text, ignoring the context and sequence of data or producing too complex codes and interrelationships. This would be counterproductive, as the researcher then becomes even more detached from the data or overwhelmed by the amount of data attached to each code.

For the current research, first, the researcher applied *open* coding, by carefully reading the interview transcripts or notes taken, and attaching systematically code tabs to text chunks related to the same coherent notion. Some codes, meaning the names given to concepts, were inspired by the thesis’ research objectives, while others borrowed the interviewees’ actual words, called ‘in-vivo’ codes (Corbin and Strauss, 2008), rather than being named by the researcher. For instance, in the following piece of text, drawn from the interview transcript of an administrator of the Agia Apple Cooperative (AAC), ideas related to necessary conditions for the establishment of a successful collective scheme were evident:

“Ideally, a collective scheme needs to start from us, the farmers, not the State. When you find yourself in a strong need then it is too late. Therefore it needs to start from persons who have some knowledge and future prospects. The rest of the farmers have to follow and support those persons without a sly attitude, for example delivering only inferior quality apples. They have to believe in the collective scheme. Regarding the commanders and employees of the new scheme, the old practices must stop. They elected persons in the AAC based on political identities rather on qualifications and knowledge. A high school degree is not enough to govern a cooperative, or the bonds of relatives are not the reason to employ someone without the needed qualifications. Meritocracy is crucial. The local farmers have objectively insufficient skills to manage a cooperative. Therefore, we need to hire persons with the proper expertise, and give them incentives to work for the new collective scheme, to search for new markets. Some of them will be responsible for marketing, others for agricultural support to the farmers... These need to be done by people who want to work hard... Most important is that the cooperative or farmer group does not operate as farmer cooperatives operate today, but show the professionalism of a private firm. I mean we cannot be a charitable foundation. The market rules are strict and hard. We ought to be first in quality, competitive in all aspects, ... and

determined on the battles we have to give within the collective scheme, for instance with the farmers supplying inferior quality, with the employees who do not fulfil their duties, and with the commanders and managers who seem inactive to explain why...Otherwise with the tolerance and lack of discipline of the ACC, we cannot have any progress." [Agia Apple Cooperative Administrator]

As clearly relevant to the research objectives, the code tabs 'bottom-up', 'leadership', 'initial critical mass', 'change in governance', 'type of market', 'political intervention' and 'sufficiency of qualifications' were attached to this piece of data. Additionally, the labels 'discipline', 'professionalism of a private firm', 'meritocracy' constituted 'in-vivo' codes, because the interviewees' actual words were used to denote those unanticipated concepts emerging from the data reading. This process of data coding continued for all interviews notes and secondary data. At this stage, it was not certain which codes were of 'higher' or 'lower' order amongst all those developed. Next, the research proceeded with *axial* coding, where all open codes were scrutinised, with a view to identifying more abstract codes, summarising the ideas conveyed by a number of integrated open codes. The description and properties of core individual open codes and axial codes are presented in Appendix II. "This conceptual ordering is classifying events and objects along various explicitly stated dimensions, without necessarily relating the classifications to each other or developing an overarching exploratory scheme" (Corbin and Strauss, 2008, p.64). In practice, this hierarchy of codes was carefully crafted through an analytical thinking process facilitated by drawing and revising mental maps (Jones, 1985) and matrices (Schatzman, 1991). Effort was made to ensure each of the 'higher order' abstract concepts "rested on a solid foundation of lower-level concepts, which in turn go directly back to the data, bringing with them the detail and the power of description" (Corbin and Strauss, 2008, p.52). Key maps/matrices included the interviewees' statements about the SME network under investigation with respect to its (i) context, (ii) features, (iii) performance and (iii) evolution. In Appendix II, examples of the most developed versions of a mental map for the Zagorin Apple case and a matrix for the Kefalas case study are given. Finally, the analytical process involved selective coding, where the researcher perused and reflected upon all the developed open and axial codes, categories with their properties,

dimensions and interrelationships, both within and across the four case studies. The aim was first to construct a meaningful and complete (as possible) 'picture' of SME network features and their evolution, out of the interviewees' testimonies. This entailed the systematic exploration of all possible explanations for network evolution implied from data, and of some contradictions emerging across the four case studies. This forced recognition of the researcher's own assumptions, deliberately searching for contradictory explanations to fully explore the concepts in terms of their dimensions and properties. The ultimate goal was to tie together the concepts pertaining to network evolution, into a coherent 'overarching' story that fully explained what was happening and why, and represented "something larger than the sum of all its individual parts" (Corbin and Strauss, 2008, p.104). For instance, to highlight the diversity of contextual factors, network features and performance across the four cases studies, a matrix of constituent aspects of Greek agrifood SME networks was developed across the four case studies (see Appendix II). Following the aforementioned guidelines of grounded theory literature, the researcher repeatably went through the interviewees' testimonies and placed them against the outputs of document scrutiny and participant observations, in order to critically evaluate whether they tried to create certain impressions about themselves to lead the research in a particular direction. Additionally, their testimonies were analysed in terms of contextual conditions, inter/action, and consequences, as Strauss and Corbin's (1990) paradigm suggests. In practice, SME network features and context were classified as 'contextual conditions' or 'structure' leading to certain situations/problems/events, to which humans individually or collectively act, react or emotionally respond (process) with consequences that may affect the 'contextual conditions'. Regarding these conditions, the micro social and economic environments of research subjects (e.g. direct relationships with suppliers and customers, 'cliques', local community) were recognised as *micro* conditions while the SME networks' political, economic and legislative environments at the national and international level were explained as *macro* conditions. The influence of these conditions on the actors' behaviour was hypothesised and traced as precisely as possible, considering the impact of time and space. At the end of the open and axial coding processes across the four case

studies, the researcher had developed a large number of intriguing concepts, which required further scrutinising to reveal their underlying structure. To facilitate this deeper thinking, the researcher returned to the relevant literature to see whether the concepts derived from the data analysis were present there and how these might differ. Were the conditions different? What was missing from the concepts derived from the literature? This exercise was instrumental in expanding the basis for comparisons of emerged concepts in terms of their properties and dimensions, by providing a list of theoretical propositions that facilitated the selective coding phase as a template for consistently analysing and presenting the data of the four case studies (it was this list of theoretical propositions that was presented in Chapter 3). Particularly, for each case study, the whole network structure and relations, as these historically evolved, were described in different phases, exploring the nature and dynamics of the vertical and horizontal connections between actors. A unified list of contextual factors and network features was developed, exploring salient factors influencing network evolution and performance respectively. The cross-case comparative analysis focused on revealing similarities and differences between the network configurations studied, and linking them to specific performance outcomes.

4.8 Verification of Analysis and Triangulation of Data

4.8.1 Principles of Verification of Analysis and Triangulation of Data

The final set of considerations in social science research concerns the issues of analysis verification and data triangulation, responding to the vital need to demonstrate the credibility of research, regardless of whether it is qualitative or quantitative (Silverman (2000, 2006). Quantitative researchers judge the research quality on the basis of validity, reliability, generalisability, and objectivity, but these criteria are not well suited to assessing qualitative research (Denscombe, 1998). Qualitative researchers cannot fully replicate social settings, as happens for instance in experiments, while time and the researcher dramatically affect data collection and analysis, making it impossible to

produce identical data and findings (Bryman and Burgess, 1994; Miles and Huberman, 1994). Therefore, qualitative researchers replace the four aforementioned criteria⁵² with credibility, dependability, transferability and confirmability (Denscombe, 1998). *Credibility* involved evaluating the accuracy and appropriateness of the selected measures in drawing “an authentic portrait” of the realities under investigation (Miles and Huberman, 1994, p.278; Yin, 1994). To certify credibility, researchers apply *triangulation*⁵³, by introducing different, independent perspectives such as theoretical positions or disciplines, involved researchers, methods, and sources of data e.g. different informants, time and space/context (Becker, 1958; Denzin 1978). Multiple perspectives are expected to offer complementary strengths, “by reducing systematic distortions inherent in the use of only one method” (Bickman and Rog, 1998, 93). Additionally, researchers can present the findings to the participants to judge their validity after the completion of analysis (Denzin, 1978) or during data collection with new or key informants (Becker *et al.*, 1961). Although a problem with this is that the participants may fail to fully understand (recognise) the explanation provided. Finally, ‘grounded’ data, long stay on-site, detailed data scrutinising to identify uncertainties, rival explanations and negative evidence can increase confidence on research credibility (Miles and Huberman, 1994). *Dependability* refers to the extent to which the followed procedures are reputable and the decisions taken are reasonable (Lincoln and Guba, 1985), implying that if fully reflexive accounts of procedures/decisions exist, then other researchers can predict to what extent comparable findings can be produced (Seale *et al.*, 1999). Writing memos (Corbin and Strauss, 2008) or recording an ‘audit trail’ (Schwandt and Halpern, 1988) offer this opportunity. *Transferability* involves assessing whether the conclusions can be fully transferred to other instances (e.g. social settings, case studies etc.), apart from the population studied (Lincoln and Cuba, 1985). To facilitate it, researchers provide rich information to enable others “to infer the relevance

⁵² Alternative terminology of these criteria has been used (see Miles and Huberman, 1994, p.277)

⁵³ However, triangulation has disadvantages such as requiring time, money and multi-skills, and might squeeze the remaining time for data analysis. The analysis becomes more complex, demanding all findings to be compared, contrasted and integrated. Finally, the implicit assumption that different perspectives produce data which support each other does not always come true. The occurrence of contradictory results entails a need for further investigation (Denscombe, 1998)

and applicability of the findings” through comparison (Denscombe, 1998, p.299). For instance, ‘thick’ descriptions of the phenomenon, reference to limitations of the study, precise description of the original sample’s features, and corroboration of findings from other studies constitute useful information to assess generalizability of findings (Miles and Huberman, 1994). *Confirmability* involves evaluating the degree that the researcher’s identity, values and beliefs influence the data interpretation, since his/her ‘self’ is intertwined with the research process (Denscombe, 1998) introducing inevitable biases. However, researchers proceed, based on the assumption that they can sufficiently become detached from their normal personal judgements, ideologies, preconceptions and attitudes, and operate in a neutral way. To justify their objectivity, researchers (i) take a reflexive⁵⁴ account of ‘self’ recording all the emerging personal assumptions, prejudices, feelings, and biases during the research, (ii) consider seriously the possibility of making false judgements (Denscombe, 1998) and (iii) avoid omitting negative evidence, rival explanations and outliers (Miles and Huberman, 1994).

Inevitably, researchers could stand differently towards the research process and subjects. Blaikie (1993, 2000) has distinguished different roles, ranging from detached to committed engagement. For the current research, the roles of a *reflective partner* and *dialogic facilitator* were deemed appropriate. In the former, researchers are in line with the interpretivism logic accepting reality as socially constructed, and understand this reality through a dialogue where participants are invited to “communicate their experiences within a shared framework of cultural meanings” (Blaikie, 2000, p.53). Moreover, through this dialogue the participants are expected to recognise by themselves oppressive forces and contradictions in their realities, and take action against them (‘emancipation’, Habermas, 1970; 1972; Mies, 1983). In the latter, researchers continue playing the role of reflective partner but try to minimise their own “authorial influence” on what is expressed “by letting the natives speak for themselves... to produce a ‘polyphony’ of voices” (Fontana, 1994, p. 214).

⁵⁴ Reflexivity refers to self-awareness (Giddens, 1984), in other words, the recognitions of all responses and decisions taken by the researcher (Mason, 1996)

With respect to research quality, qualitative researchers, using the methodologies applied also to the current study, have to confront the following particular criticisms raised usually from quantitative scholars. First, quantitative researchers are sceptical whether case studies can always produce reliable, valid findings, useful for generalisation (Yin, 1989; Blaikie, 2000). Qualitative researchers' defence could be that despite its uniqueness each case study remains "a single example of a broader class of things", whose similarity to other cases in the class, and good 'fit' in the overall picture can be assessed, by comparing all the known cases across a list of crucial attributes/dimensions for the phenomenon under investigation e.g. location, history, social and institutional types (Denscombe, 1998, p.42). Furthermore, Yin (1994) highlighted that case studies focus on the analytical rather statistical generalisation of findings; so these are selected to cover broad theoretical themes, rather being 'representative sampling units'. However, defining boundaries of case studies "in an absolute and clear-cut fashion" could be difficult (Denscombe, 1998, p.46). Second, regarding participant observation, concerns have been expressed over reliability, objectivity and generalisability again (Alder and Alder, 1994). These are originated from (i) the observers' effect (Kidder, 1981), (ii) the fact that the research instrument is the researcher's 'self', so the quality of field notes depends on the researcher's memory recalling ability, and (iii) that events/situations observed are usually not representative, but subject to availability and convenience (Denscombe, 1998). Third, to legitimise interview findings, the researcher ought to make credibility checks against the content of other interviews or documents and observations, and justify the interviewees' ability to "comment authoritatively on the topic" (Denscombe, 1998). Criticism levelled against the interviewer's effect also implies that data may be less reliable since these appear specific to the interviewer and context to some extent (Miles and Huberman, 1994). For instance, recorder devices create artificial conditions, affecting some of the interviewees. Also, interview data represent only what the interviewees say they do, rather than their actual behaviour. Finally, the main concerns related to grounded theory address issues of dependability, since many existing versions of this theory could produce inconsistency

in the application of the method, and confirmability, for instance, to what extent can the researcher's own culture, personal experiences and literature be put aside? Does the researcher 'reinvent the wheel' by not incorporating findings derived from literature?

4.8.2 Verification of Analysis in the Current Research

To address the above considerations, this section sets out the specific verification procedures executed for the current research. To foster *credibility*, the researcher applied triangulation by using different methods of primary data collection e.g. interviews and participant observation, combined with secondary data collection. Furthermore, different data sources were used, including multiple interviewees, and geographically spread visit sites (e.g. locations of farmers, villages and prefectures), and sites for participant observation. Field visits were also conducted at different times. The research analysis also benefited from inclusion of complementary disciplines and theoretical approaches derived from network literature (e.g. sociology and economic, marketing theories). Particularly, to enrich analysis during the selective coding phase, the researcher returned to the literature to check whether the emerged concepts from the earlier open and axial coding phases were present or not in the literature. The researcher checked whether informants had knowledge of the subject, by making some background research on them (e.g. position, degree of involvement, qualifications and recommendations from others). The interviews were scrutinised to assess to what extent ideas were shared by many interviewees. In addition to triangulation, to increase credibility of analysis, the researcher not only spent a long time in the field, but also some time away ("temporal withdrawal" Whyte, 1943) to avoid "going native" (Miles and Huberman, 1994), in other words, excessive immersion in the informants' perceptions and explanations. However, the researcher focused on keeping the analysis 'grounded' to the data. Finally, to further increase the research credibility, a report of findings was sent to the gatekeepers for their comment on how close it described and explained their reality. To justify *dependability* written memos included the description, justification and reflections on application of all decisions made. The participant observations helped to

assess whether what the interviewees actually did coincided with what they said they did. To enhance *transferability*, in the presentation of case study results, there is a considerable amount of information covering the historical evolution and context in order to allow readers to judge the relevance of findings to other instances. The researcher gave ‘thick’ descriptions of the phenomenon (i) at the level of individual network members, including actors from different supply chain stages, from outside the supply chain, and applying the paradigmatic model (e.g. conditions-inter/actions-consequences). The researcher also focused (ii) at the whole network level, by taking under consideration its context, structure, governance and performance. To ensure *conformability*, the researcher prepared a reflexive account of her expectations and prejudices, before entering the field, in order to deliberately search for rival evidence. After completing each interview, the researcher included in the relative memo a similar reflection section to increase the awareness of any bias, control her attitude and operate in a detached way during data collection and analysis. The researcher considered seriously the possibility of ‘having got it wrong’, so regular checks were made by summarising the interviewees’ thoughts and asking them whether these were correctly understood. Findings were also checked against other interviewees’ input, secondary data, and participant observations, seeking alternative or rival explanations. ‘Outliers’ identified in the preliminary results signified the need to re-examine initial assumptions, and widen the sample by including unanticipated exceptional cases (e.g. interviewees, events, social settings). Both credibility and transferability of findings of the current study were strengthened by the use of theoretical sampling and the ‘collective instrumental’ case study technique.

4.9 Summary

This Chapter has presented in depth the specific methodological choices that constituted the empirical research design of the current study. Given the research’s exploratory character, an abductive research strategy and qualitative case study methodology were deemed appropriate. Primary data were collected through participant observation and in-depth interviews, combined with secondary data collection. Techniques of purposeful

sampling and triangulation were applied. The data analysis followed the principles of grounded theory, and was facilitated by N-vivo software. Finally, attention was paid to the verification of the findings. For all the aforementioned methodological choices, this Chapter has presented the relevant theory, 'best practice' and justified the choices with reference to the research objectives. The specific procedures executed in the current research have also been explained together with reflection on them.

The Thesis now moves on to presenting and detailing the results of the case study research. Results are presented case by case in four separate chapters (Chapter 5 to 8). Chapter 9 then gives a cross-case analysis of the results. The first set of results relates to the Blauel organic olive oil case, which is the subject of the next chapter.

Chapter 5: Blauel Organic Olive Oil - Case Description and Analysis

5.1 Introduction

Following the methodology Chapter, the results of the first case study are now presented and analysed. The focal point of this analysis is the private enterprise Blauel Ltd, that standardises and markets organic olive oil under the well-known premium brand 'Mani'. The enterprise is located in the remote mountainous Mani area, in the part belonging to the Messinia prefecture. Map in Figure 5.1 depicts the geographical location of the Blauel case, with key villages highlighted.

The selection of the Blauel case was based on two methodological criteria: (i) the case represents a processed product and (ii) the network exhibits apparently good market performance. As a result, following the theoretical propositions set out in Chapter 3, it was tentatively expected that relatively strong network would be found, and also possibly quite benign contextual conditions.

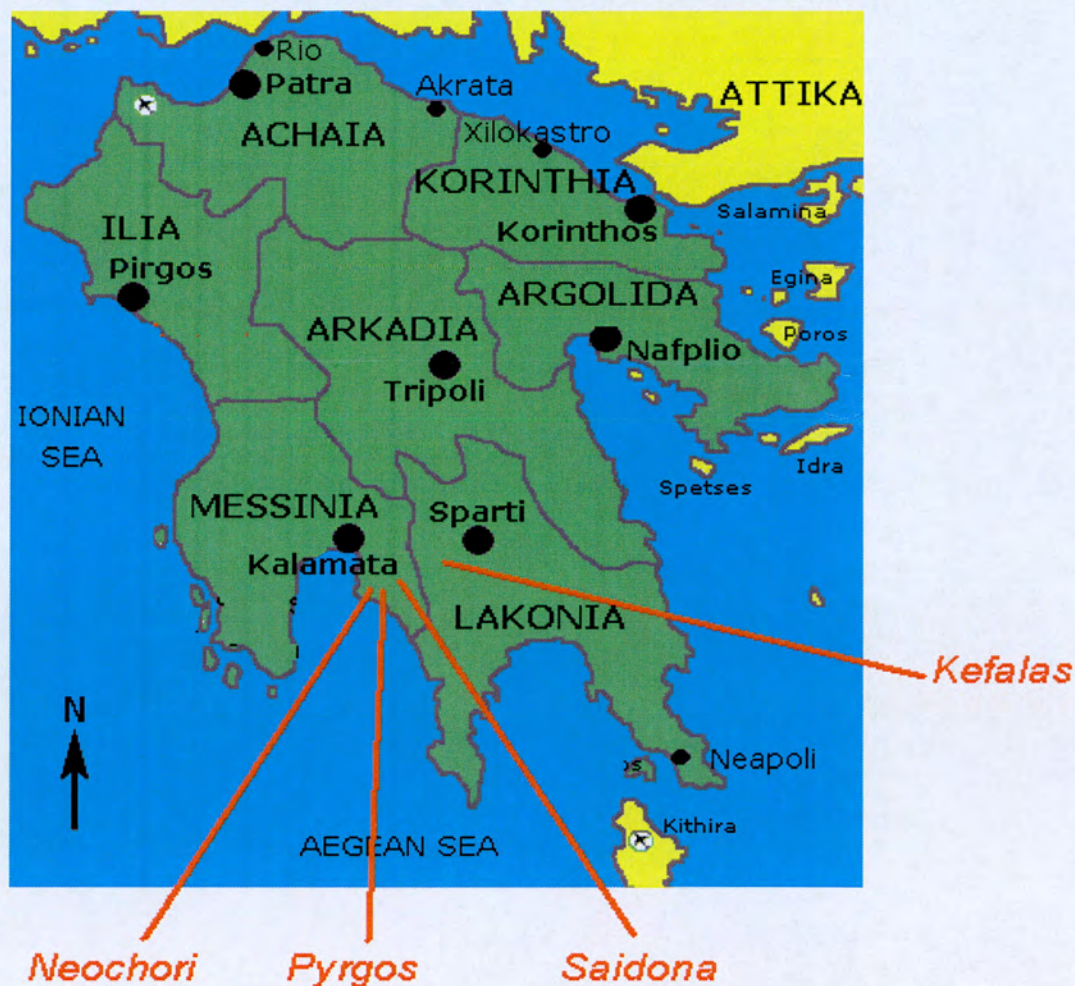
The Chapter begins with the historical evolution of the case described in three phases. The analysis of contextual factors influencing evolution and the description of the present day network structure follows. Then, some observations regarding the Blauel network's current performance are presented. The Chapter closes with the analysis of how network features impact on performance, and a chapter summary.

5.2 Historical Evolution of the Blauel Network

5.2.1 'Establishing Exporting Marketing Channels for Conventional Olive Oil' (early 80's to late 80's)

In 1980, Fritz Blauel, an Austrian entrepreneur, came up with the idea to export conventional olive oil to Austria. He was supported and supplied by a few farmers at

Figure 5.1: Geographical Location of Blauel Case Study



Neochori village. These farmers constituted the first critical mass of farmers supporting Blauel. Neochori village is located in the coastal edge of Mani, which is the least mountainous area of the region. The olive oil was bottled by hand, and exported as a standardised product, rather than in bulk, which was the common practice in Greece. Blauel avoided following other wholesalers and trade brokers' usual approach to exploiting farmers.

In 1988, Fritz Blauel and his wife tried to introduce organic farming, which was unknown in Greece. Being discouraged by an error in the application of organic pest control, the farmers of Neochori village abandoned the organic initiative. Since then, the

majority have either sold their land as a building plot, as the area is a popular resort, or remained in conventional olive production. So, Blauel was forced to turn to the farmers of the mountainous villages of Mani for support.

5.2.2 'Establishing Exporting Marketing Channels for Organic Olive Oil' (early 90's – 1995)

Based on the pre-existing social cohesiveness of the farmers of the mountainous village of Saidona, Fritz Blauel introduced organic farming under a supportive agricultural contract, the Blauel "bio-program". This contract required the farmers to deliver their organic production exclusively to Blauel Ltd for at least five years in return for a 20% premium on the average local price offered for the conventional olive oil. In return, Blauel Ltd provided close agricultural guidance, cheap agricultural inputs, secure payment, and coverage of the certification costs. The Blauel enterprise cooperated with DIO Ltd, the first certifying body for organic production in Greece. Facing tough challenges as new entrepreneurs, the Blauel couple sought training for themselves in Switzerland. Dramatic improvement in governance structure resulted from this training. Almost 100% of Saidona farmers became organic, thanks to Blauel's intensive support, which considerably contrasted with the behaviour of other wholesalers, who usually sold abroad in bulk, and exploited farmers by offering low prices or not paying off at all. However, an effort by Blauel to train Saidona farmers to divide collective labour in order to improve efficiency failed, because the farmers were close to retirement, so they were reluctant to adopt innovation. This discouraged Blauel from offering such training again.

In 1992, the EU regulation and subsidies for organic farming encouraged more farmers to join the Blauel bio-program. Blauel established a bottling unit and started exports of organic olive oil to Austria. He entrenched the 'MANI' brand. Since then, his exports were gradually expanded to Germany, and Switzerland, resulting in the expansion of the

production base, first to farmers in the whole area of Messinian Mani, and second to the rest of Mani region belonging to the adjacent Laconia prefecture.

A smaller number of farmers, outside Saidona village but within the Messinian part of Mani area, joined the Blauel bio-program. However, this part of Mani has some unfavourable features such as small farm size and difficult cultivation, due to the mountainous land. As a result, production costs were so high that Blauel could not offer Mani farmers a price leaving a satisfactory profit, which in turn made farmers complain and be less motivated than those in low-lying areas.

5.2.3 'Expanding the Market– Dramatic Changes in Farmers' Network' (1995-2006)

Thanks to the high reliability of product quality and customer relationships, Blauel Ltd. gradually expanded exports to of America, Scandinavia and Japan, usually via trade intermediates. This resulted in the need for further expansion of the olive oil production base via an additional two groups of farmers: a) those farmers residing outside Mani area, but who joined the Blauel bio-program, and b) 'independent' farmers, who did not participate in the Blauel bio-program. Blauel Ltd continued to buy occasionally from these "independents". He offers them single-transaction contracts, and does not cover their certification costs.

Regarding the first group of farmers who joined the bio-program, it was amongst those in Kefalas village, where like Saidona village, farmers showed a strong will for collective action and innovation. However, in 1999, two groups of young farmers in Laconia, one at Kefalas village and another one at Valinisti village abandoned the Blauel bio-program. They established their own collective enterprises: Kefalas Ltd and Organon Ltd respectively. Generally, Laconia has different characteristics from Mani area: big farm sizes; low-lying terrain; lower production costs; and farmers who have a more professional attitude and are more self-motivated to learn novelties in production

methods. So, Blauel Ltd could offer a price leaving a satisfactory profit to the Laconia farmers, who are also proved more cooperative with Blauel.

Blauel could not persuade more farmers in Messinian Mani to collaborate with him, so he had to seek alternative options to expand the production base. Since 1999, the Neochori⁵⁵ farmer cooperative established its own standardising unit based on public funding. The Neochori cooperative commanders developed an antagonistic attitude towards Blauel Ltd, but their hope that they could imitate Blauel's success proved in vain. Local farmers were discouraged from collaborating with the Blauel enterprise and converting to organic farming. As a result, some Neochori farmers collaborating with Blauel Ltd, abandoned either organic farming or Blauel Ltd. Today, very few Neochori farmers participate in the Blauel bio-program.

In 2000, Blauel replaced the general manager. A slight alienation of Blauel Ltd from the farmers has been observed, since then. In 2002, due to disagreement in the quality of service provided, Blauel Ltd decided to replace DIO Ltd with a new certifying company for organic production in Greece, called Bioellas Ltd. This change constituted a trust test in the relationship between Blauel and the farmers, since they could have refused the change of certification body. However, this did not happen. Since 2004, Blauel has gained many awards from the International Olive Oil Council and other bodies for the organic quality of his oil. This added considerable recognition to Blauel's brand. Since 2003, Blauel Ltd has expanded its range to conventional olive oil, olives and other products, focusing on high quality.

5.3 Analysis of Factors Influencing Historical Evolution

5.3.1 Introduction

This section considers the key factors influencing the evolution of Blauel network over

⁵⁵ Both Neochori and Saidona villages are located at the Messinian part of Mani. Laconian Mani is the other part of Mani region that belongs to Laconia prefecture, located next to the Messinia prefecture (see Figure 5.1).

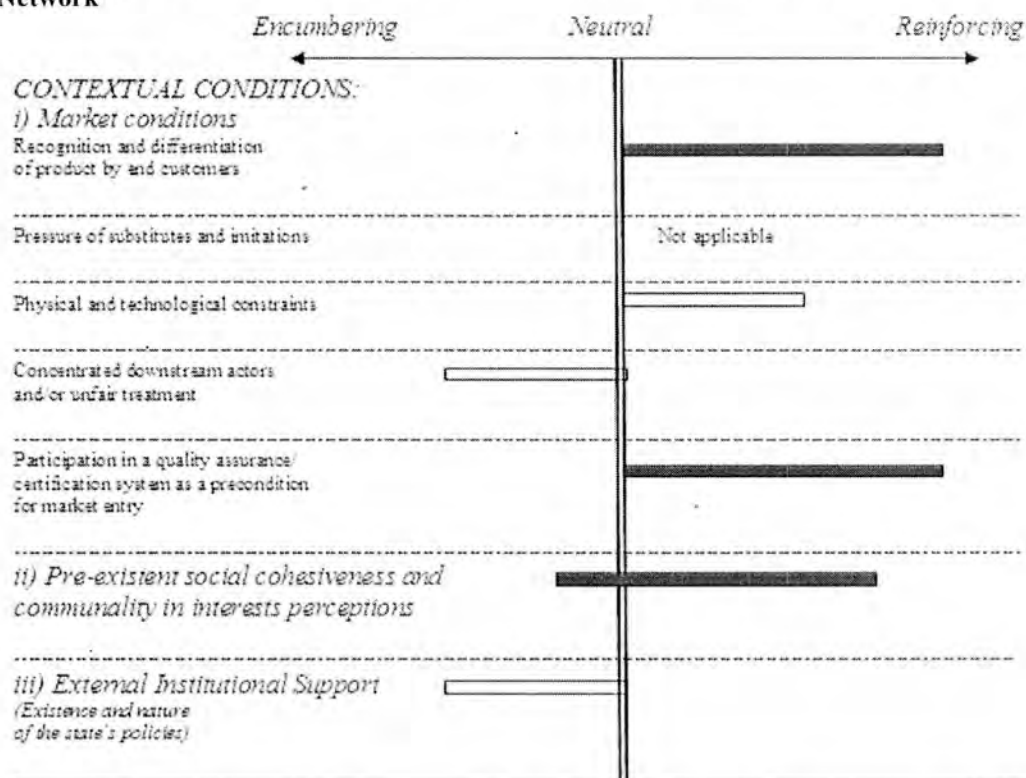
time, drawing from the factors identified from literature in Chapter 3. Briefly, three main categories of factors were identified: market conditions, social cohesiveness, and external institutional support. For Blauel analysis indicates, all three factors played a role, however some of the sub-categories were deemed as less decisive for Blauel, compared to the other cases. Figure 5.2 summarises the impact of all factors on Blauel's evolution diagrammatically⁵⁶; most important impacts are depicted with black bars, less important with white bars. The length of the bars reflects the impact of the respective factor to network evolution. As Figure 5.2 shows, the three factors identified as particular critical to the Blauel network evolution were: (i) recognition and differentiation of product by end customers, (ii) quality certification scheme as a pre-requisite to market entry and (iii) pre-existent social cohesiveness and communality in interests/perceptions. The next sections explain the impact of these factors.

5.3.2 Recognition and Differentiation of Product by the Customers

Following the theoretical proposition from the literature, if a significant segment of end-users recognises and pays a premium for differentiated products, this may enhance tighter network linkages as firms are encouraged to develop quality product and brands (de Roest and Menghi, 2000). The domestic organic olive oil and standardised market is still in its infancy, since Greeks trust the quality of conventional olive oil bought in bulk from their relatives. So, this factor does not play a strong role in the domestic environment. However, Blauel foresaw the existence of market niches for organic oil in other European countries, which he focused on since the beginning, and in turn successfully capitalised on. Blauel's testimony illustrates this *'with our surf, we were on two waves: one of olive oil and one of organic products in Europe'*. Then, Blauel understood that in order to establish the production base with the required scale and efficiency, he needed a contract relationship with his suppliers offering strong support,

⁵⁶ For an analysis of the less important contextual factors for the Blauel case study, see the comment for the footnote 56 from Chapter 5 in the Appendix I

Figure 5.2: Contextual factors Encumbering or Reinforcing the Strength of the Blauel Network



but also imposing stringent application of regulations. He then had to identify and “eliminate” deficiencies of local farmers e.g. lack of orientation to quality and customers’ needs.

5.3.3 Quality Certification Scheme as a Pre-Requisite to Market Entry

Following the proposition from literature, if the participation in a quality certification scheme becomes a pre-requisite to market entry, it motivates strong inter-firm relations within SME networks (Spiller and Zellner, 1997; Maze *et al.*, 2001).

Since Blauel decided to export olive oil under an organic quality certification label, he had to reach certain standards of scale and efficiency of the production base for exporting and differentiating his product on a quality basis. However, the local farmers

more or less lacked the needed professionalism and orientation towards quality and consumers' needs, due to the long-existing production system in Greece of conventional olive oil sold in bulk and never certified for its quality.

In order to achieve an attitude change, Blauel Ltd had first to understand the mentality of local farmers and second 'eliminate' their deficiencies in competencies. The Blauel bio-program has provided strong support (e.g. information, guidance, and patience) and secured stringency in the application of regulations. Consequently, a sufficient number of local farmers were persuaded to convert to organic farming. Now, the farmers are concerned about how to control and guarantee quality. In other words, Blauel has gradually introduced local farmers to a whole new way of thinking and behaviour, and his bio-program constitutes a 'virtual' vertical integration form with the local farmers.

5.3.4 Pre- Existing Social Cohesiveness and Communalty in Interests/Perceptions

The theoretical proposition from the literature in Chapter 3 was that if social-cultural bonds pre-exist amongst actors in a network and are expressed through communalty in interests/perceptions, this enhances the likelihood of strong, durable ties existing across the network (Scott, 1998; Baker, 1995). In the Blauel case, strong socio-cultural bonds pre-existed only amongst the farmers of Saidona, Kefalas and Valinisti villages. Thanks to strong communist political beliefs, the highest communalty in interests and perceptions was observed amongst Saidona farmers. In contrast, for the rest of the farmers in both Mani and Laconia areas, very low pre-existing socio-cultural bonds are typical, especially among habitants of different villages. Such farmers are characterised by low communalty in interests and perceptions, demonstrated by prioritising individual benefits over collective ones, by holding conflicting perspectives such as between farming and tourism or other jobs; between short and long-term perspective; between profits and improving quality.

The impacts of the nature of social cohesiveness on the expansion and maintenance of the Blauel network are twofold. First, the existence of social cohesiveness accelerated the network expansion by facilitating (i) the diffusion and application of innovative ideas; and (ii) Blauel's hunt for a solid and dutious critical mass to introduce organic farming. Thus, Blauel reached scale economies and success more easily. However, social cohesiveness was also found to work the opposite way. Despite Blauel's substantial investment in Saidona farmers' training, their acceptance of innovation was unavoidably limited by their lack of funding and short-term interest in farming due to their advanced age. They collectively decided that adapting further to innovation did not conform to their personal interests and capabilities. Their desire to conform with each other limited the network expansion therefore.

The second impact on social cohesiveness relates to the existence of strong cohesiveness in Saidona, Valinisti and Kefalas villages. There, the farmers eventually tended to want to become independent from Blauel's collaboration⁵⁷. In fact, the Blauel bio-program, a "virtual" vertical integration form, increased their confidence/interest to establish their own collective scheme, a real vertical integration form. This wish was not materialised by Saidona farmers, who admitted being too old for such a demanding initiative. In contrast in Valinisti and Kefalas villages, the young age and the existence of a person with leadership qualities led to the setting up of a new enterprise. In essence, the Blauel bio-program transferred "tacit" knowledge to those farmers on how a sustainable collective scheme is built, and registered in their collective memory that they are capable of building it. In contrast, fragmented farmers, i.e. those lacking social cohesiveness, lost their initial interest in establishing a "countervailing power" network and tend to remain loyal, when they start collaboration with a downstream actor who offers a fair, supportive and secure contract, such as Blauel Ltd.

⁵⁷Blauel Ltd is a special case of interest regarding the impact of social cohesiveness on network maintenance. Because it is a private enterprise, the farmers see Blauel as nothing more than an exceptionally supportive and fair downstream actor. As long as their vision coincides with Blauel's objectives, the network remains united.

That Valinisti and Kefalas farmers eventually abandoned the Blauel bio-program, and that Saidona farmers refused further training, convinced Blauel that such intensive support to farmers constitutes a loss of assets invested and a danger of breeding future competitors, rather than a beneficial effort. Consequently, Blauel adopted the principle that *'education/help should be offered only to those who have comprehend, by themselves, the need for it, so they express strong will to be educated and helped, communicate effectively their needs, bring their own ideas to resolve specific problems'*. This finding highlights the special impact that social cohesiveness, a contextual factor, can have on the evolution of network actors' perceptions regarding how they should interact with other actors.

After discussing the impact of contextual factors on the historical evolution of the Blauel network, the analysis of the present day network follows. This begins with the description of the network structure and performance. Next, certain network features, drawn from theory presented in Chapter 3, and which have particular relevance to the Blauel case, are discussed. Finally, the impact of these features' on performance is assessed.

5.4 Structure of the Current Blauel Network

The Blauel network consists of a six-stage chain, where Blauel Ltd is the focal point of interest. Figure 5.3 depicts the network diagrammatically.

As Figure 5.3 shows, the first stage of the Blauel chain refers to input suppliers to farmers i.e. suppliers of organic fertilisers and pest control equipment) or standardisation/processing units (i.e. suppliers of standardising machinery or packaging materials). The second stage consists of 350 organic olive farmers, of which 250 participate in the Blauel bio-program and 100 supply Blauel Ltd as 'independent' farmers. In 2005, the total annual production of Blauel was around 800 tonnes of olive

oil, 55% of which is certified as organic either by the domestic private inspection agency, Bioellas Ltd or foreign ones (i.e. Natura; Bio Swish). The rest is conventional oil. The third stage of the chain includes 18 olive processors, of which 11 are cooperatives. With the exception of a private processor, which is 100% organic, the rest accept both organic and conventional olive oil. In the next stage, the olive oil is standardised at Blauel's single bottling and labelling plant. This is the focal point of the network. The product is labelled either with 'Mani' brand (83%) or the downstream actors' label (17%). The final stage consists of distribution of the oil to retail outlets. 74% of organic output is distributed by seven foreign region-specific wholesalers, and two import agents to hundreds of small local retailers or delicatessen shops abroad (in Europe, America, Asia). 26% of output is distributed directly to two foreign multiple retailers in Germany and Austria. Very little quantity of organic olive oil is sold through domestic local delicatessen shops or directly to final consumers via internet or phone.

Additionally, in the Blauel network there is a set of actors external to the supply chain, with whom Blauel Ltd has established frequent and fruitful relationships (see Figure 5.4). The Blauel enterprise is present in the whole organic scene of Germany, Austria and Greece. This scene consists of *"lots of sub-organisations, inspectors, organisations accrediting something, or you need to 'belong to them to get information'"* [The Entrepreneur-Leader]. Particularly, Fritz Blauel acknowledged the following as particularly influential external actors: those who assess the quality of olive oil (i.e. taste-panels and competitions); the network of olive oil chemists; the network of suppliers of standardisation machinery and raw material; the association of Greek standardisation units of olive oil called SEVITEL; the Greek 'Olive and Olive Oil' magazine; the association of Greek standardisation units of quality products; domestic private/public agricultural/developmental agencies, and the coaches from his business training in Switzerland.

Blauel delegates meet these external actors in meetings of associations; international competitions and fairs such as the BIOFACH, the largest European organic fair annually

organised in Munich. There, they exchange information, knowledge and ideas; collect product/service feedback and listen closely to those shaping opinions and trends, such as quality gurus, or associations representatives. The information flow continues through internet contact and newsletters. In this way, Blauel watches the circumstances and tendencies in the global organic olive oil scene; anticipates future challenges and interactively elaborates sophisticated ways to respond.

Overall, the Blauel network is a remarkable case, because of the strong linkages between actors both within and outwith the supply chain, and its strong reliance on European information/knowledge exchange networks.

5.5 Performance of the Blauel Network

5.5.1 Introduction

Following the case selection criteria, the Blauel network was chosen for being a “processed product” and having apparently strong market performance. This section examines how strong Blauel’s performance actually is in practice.

As introduced in Chapter 3, Human and Provan (1997) identified two types of network performance outcomes: transactional and transformational. Transactional outcomes refer to improvement in financial performance, organisation credibility and access to resources, while transformational outcomes refer to an attitude/ behaviour change of members as a result of network participation. For the Blauel network, both types of outcomes were expected to be found, since this case was chosen as a classic “successful performance story”. Figure 5.5 depicts the performance outcomes found in practice, and the following sections give the details.

Figure 5.3: The Current Blauel Network: Internal Actors of the Supply Chain

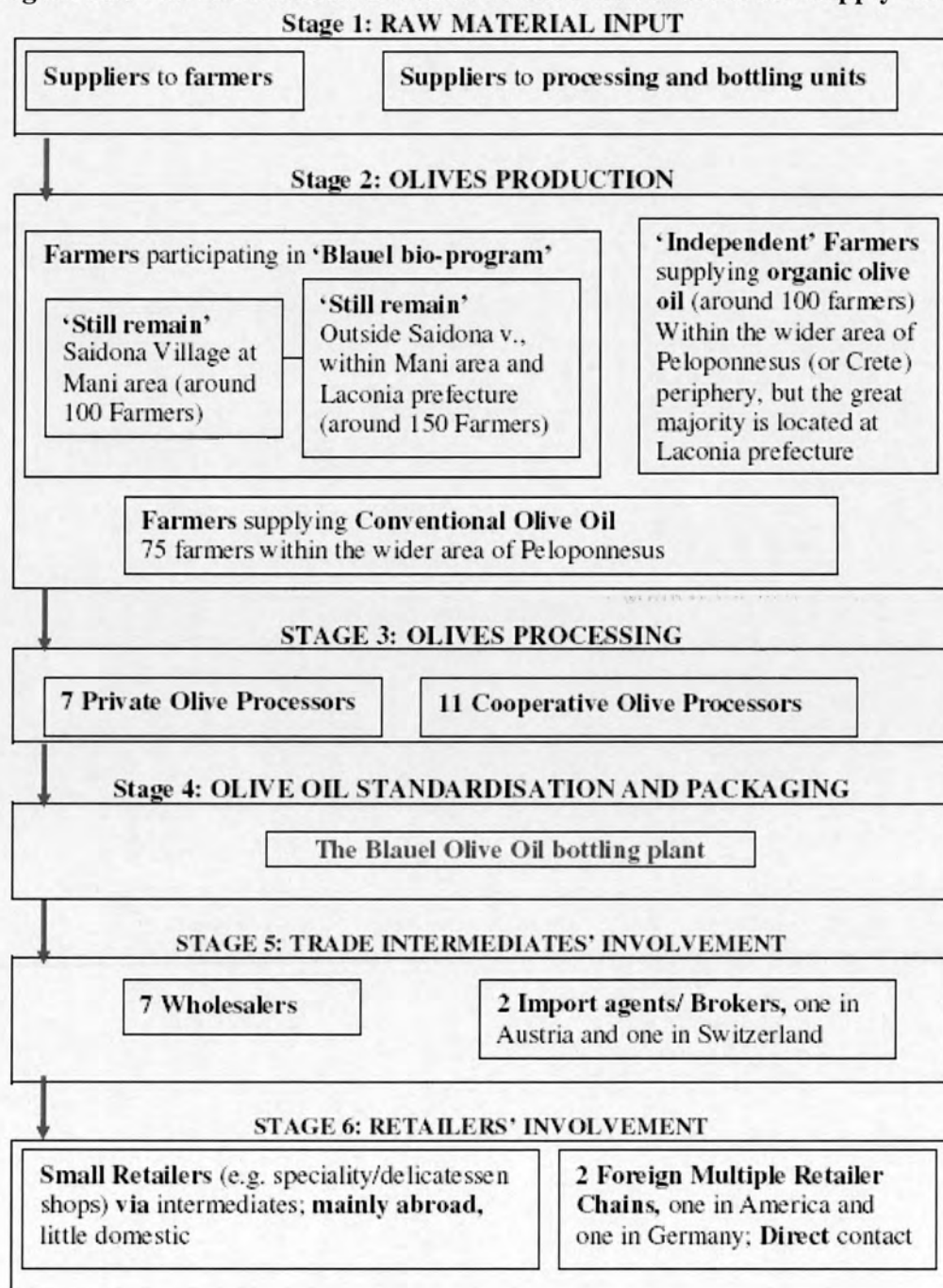


Figure 5.4: The Current Blauel Network: Actors External to the Supply Chain

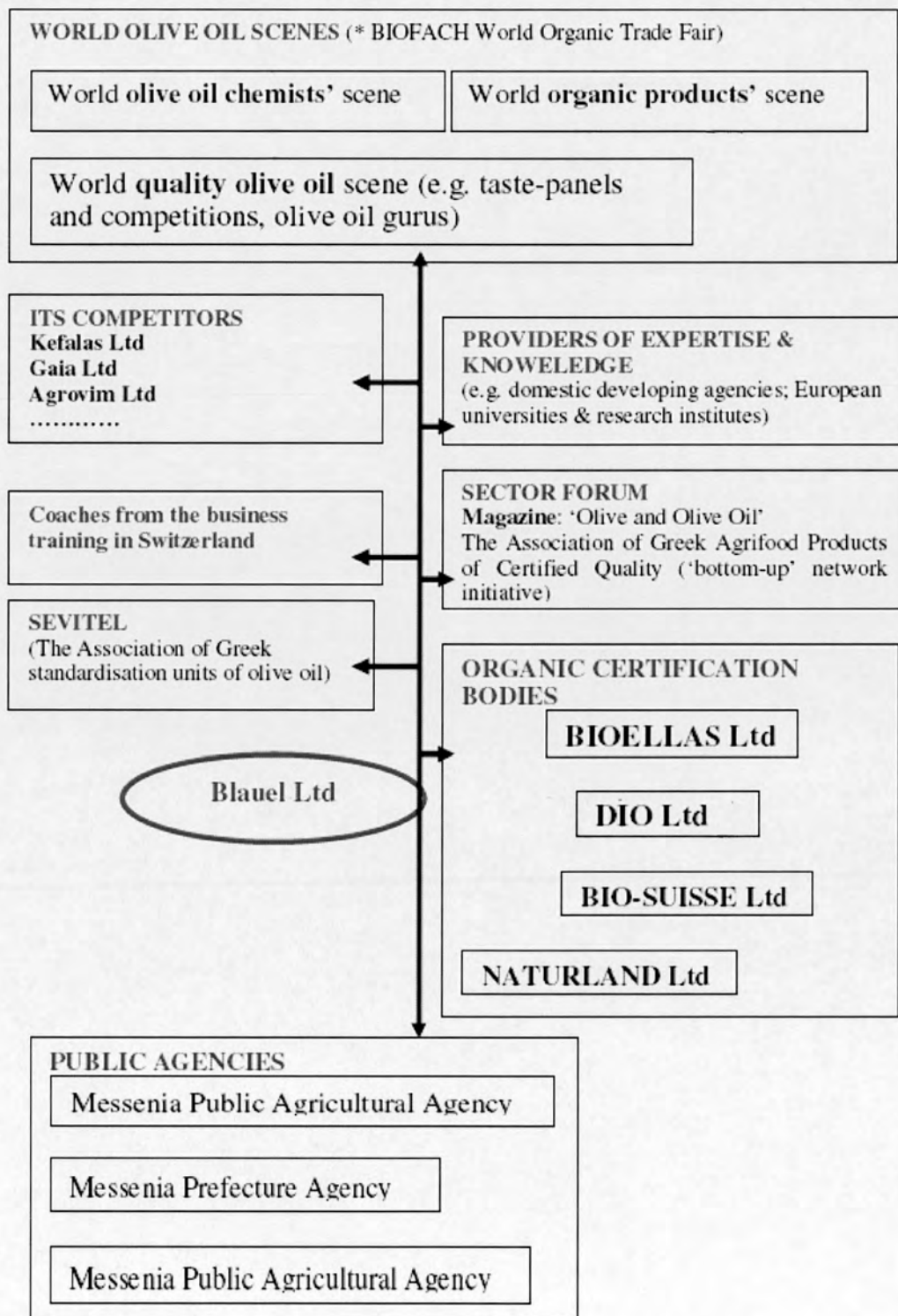
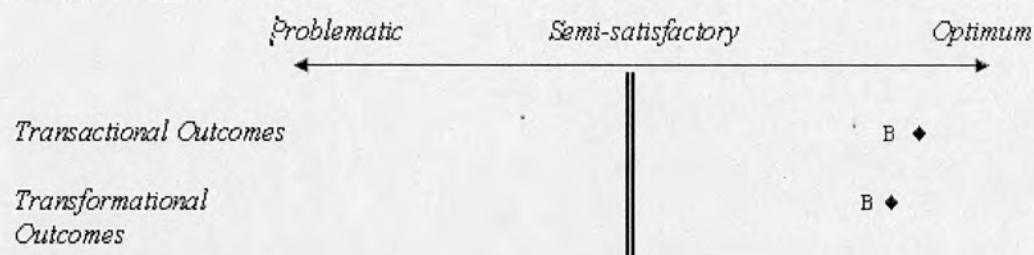


Figure 5.5: Transactional and Transformational Performance Outcomes of the Blauel Network



5.5.2 Transactional Outcomes of the Blauel Enterprise

The farmers supplying Blauel Ltd enjoy a secure premium payment and receive reliable information/knowledge. Especially, those participating in the Blauel bio-program benefit hugely from a long-term contract, regular training and agriculturist's advice, as well as free certification services. The Blauel enterprise has achieved stable scale economies. Despite the decision not to sell at a discount, as customers demand, Blauel Ltd preserves its high attractiveness as a partner. This stems from its good reputation for being reliable, free of scandals and having awarded product quality. Consequently, the enterprise's viability and credibility towards large suppliers, customers and public agencies such as universities, agricultural and administrative agencies have considerably increased. Blauel's success has reinforced local prosperity. Both 'Mani' and downstream actors' brands are differentiated and recognised by end consumers and sold at premium prices. However, none of these brands is the market leader, which means that a margin for improvement exists. Overall, almost optimum transactional outcomes, reflecting good economic performance are observed, as expected.

5.5.3 Transformational Outcomes of the Blauel Network

Through the Blauel bio-program, the farmers became familiar with an environmentally friendly production system, and understood the need for higher professionalism, discipline, coordination, quality certification, respect for the consumers' needs, and

mutual long-term relationships with the standardisation unit. Overall, Blauel's effort for optimum transformational outcomes have been almost successful, limited only by the farmers' personal reasons, which were beyond Blauel's capability of addressing them. Particularly, there were cases where farmers abandoned Blauel's collaboration before any transformation in attitude/perceptions occurred. This happened at Neochori village, where most farmers refused to convert to organic farming, because they had farming as a second job or preferred to sell their land to developers of sea resorts. Even in cases with strong transformational outcomes thanks to the pre-existing social cohesiveness, such as Saidona, Valinisti and Kefalas villages, the farmers compromised those outcomes. For Saidona farmers, the reasons were their pensionable age and inability to cover the organic production expenses; consequently their interest in farming had gradually declined. For Valinisti and Kefalas village farmers, personal ambitions to establish their own cooperative enterprise led them to become independent from Blauel Ltd.

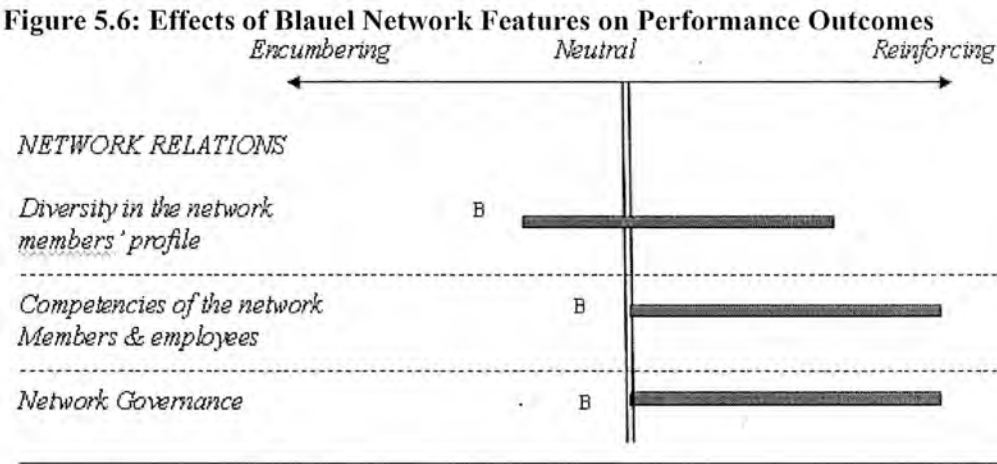
In conclusion, since Blauel Ltd was selected as a classic 'successful performance story' both transactional and transformational outcomes were supposed to be optimal. Both expectations were almost met. It was surprising that farmers' personal reasons and free will can limit transformational outcomes, leaving Blauel without any power to change this result. Having confirmed the performance status of the Blauel network, next sections offer an account of the key factors of the network and then explain to what extent certain features were conducive to Blauel's favourable performance outcomes.

5.6 Features of the Blauel Network

5.6.1 Introduction

In Chapter 3 it was proposed that the specific features of SME networks, including the profile of members, their competencies and the network governance, can have a strong bearing on network performance. This section considers the impact of key features of the Blauel network performance. Figure 5.6 summarises the findings, indicating that

member profile had an ambiguous effect, whereas member competencies and network governance had more clearly positive effects.



5.6.2 Blauel Network Member Profile

The first feature of the network that impacts on performance is the profile of the network members. Milliken and Martins (1996) identified two profile types: physical and attitudinal. The former relates to the ‘observed’ attributes of the network members, while the latter considers their ‘less visible or underlying’ features such as perspective, goals and reluctance to change. The theoretical proposition states that diversity in either physical or attitudinal profile impedes performance outcomes (Milliken and Martins, 1996). Given the good market performance of the Blauel network, homogeneity in the profile of farmers collaborating with Blauel Ltd was expected.

Surprisingly, diversity was discovered in the physical profile regarding age, land size and morphology, having a second job or not and economic prosperity. This was so for the farmers from Mani and Laconia areas who currently participate in the Blauel bio-program. Also, a small diversity in the attitudinal profile concerning professionalism, commitment and discipline was observed which may explain why the farmers from Mani show less discipline to follow agricultural instructions than those in Laconia.

However, when comparing the Blauel farmers with the local farmers not collaborating with Blauel or even themselves before joining the Blauel bio-program, on attitudinal features such as professionalism, cooperation attitude, interest in organic farming, reliability, not being deceitful, the Blauel farmers now exhibit a notable overall homogeneity. They all believe that the Blauel bio-program as an entity is beneficial and show willingness to remain members obeying to the contract rules. This homogeneity in attitude results not only from the strict and deliberate selection of participants in the Blauel bio-program, but also from effective mechanisms for transferring knowledge, which have changed favourably the participants' attitude over time. Consequently, Blauel Ltd not only reached scale economies, high quality and satisfactory intra-firm coordination (i.e. satisfactory transactional outcomes), but also successfully integrated individual farmers into their enterprise mission.

Compared to those participating in the Blauel bio-program, surprisingly the 'independent' farmers have higher homogeneity in both physical and attitudinal profile. This is explained by the fact that the single-transaction contract facilitates the selection only of farmers with features matching to Blauel's high standards, particularly big land size, professionalism, high quality and market orientation. Despite the initial difficulty to discover and confidently assess the compatibility of the 'independent' farmers with Blauel's standards, the Blauel enterprise hugely benefited from the fact that these farmers take the whole responsibility for self-training and certifying high quality of organic product. So, Blauel Ltd secures extra supplies when needed with the minimum input.

The attitudinal homogeneity among Blauel Ltd employees is noticeable, resulted from dramatic changes in the enterprise's governance structure after Blauel's business training in Switzerland. The employees were trained to self-learn, become independent and communicate effectively their needs and expertise. Consequently, intra-firm coordination and efficiency were considerably increased, since the employees

comprehended the principles for maximum productivity, felt more confident with team working, and were motivated to bring in most of their capabilities. The principle of hiring only people with the 'right' mentality evidently promotes efficiency.

Overall, the Blauel network members' profile was considered as a case of high homogeneity gradually achieved by Blauel's deliberate choices in governance structure and members' selection. Given the apparently good market performance, the expectation for a homogenous members' profile is confirmed.

5.6.3 Blauel Network Competencies

The second network feature that impacts on performance is the network members' competencies. If the members are qualified according to their responsibility with sufficient skills in production, marketing/entrepreneurship and collective-management, then good market network performance is hypothesised (Provan and Kenis, 2008). Given the good performance of Blauel, such skills were expected to exist.

First, regarding production skills, the Blauel network exhibited satisfactory knowledge of organic farming of the farmers and agriculturists. Also, good standardisation competencies of Blauel Ltd were discovered.

Second, regarding marketing/entrepreneurial skills, the Blauel couple and the current general manager have displayed considerable competencies. Their focus on European information/knowledge networks and wide network horizon were noticeable. Blauel's entrepreneurial response to the hostile circumstances of the domestic business environment, owing to the lack of external institutional support, was to seek alternative sources abroad. He used these 'weak ties' to derive inspiration and knowledge from experts met at international fairs/competitions. By picking up the cutting edge production and marketing techniques and understanding the tendencies and future challenges, Blauel Ltd could design its strategy with less risk. Fritz Blauel's marketing philosophy is illustrated by the following quotations:

"We aim for our business partners to be so convinced of our competences, so when they think of something innovative they will choose Blauel Ltd to materialise it." [The Entrepreneur-Leader]

"(Care and authenticity)... then as a company we have the same quality to the outside, and this why the customers find us I think. We are ready for this thing, I mean we are 'good to work with' plus we are 'safe to work with', and for even big companies who work in a totally different way, very rational, mechanistic 'square'. No, we do not face difficulties, because the point you meet this colossus is a person, and this person has feelings, hopes and fears. So if this person feels good with us, this is helpful. At the same time, we have to be 100% professional, no question, but it helps enormously if the vibes are O.K. So we mix private and professional, which is fine, because we are human beings who want to be happy and want to have a good time." [The Entrepreneur-Leader]

"Again, there is a feeling of trust that people have in us, that they (competitors) gave us work, and we do the same with others who have special machinery that we do not have" [The Entrepreneur-Leader]

Third, regarding managerial skills, Blauel, the current general manager and the two employees responsible for relationships with the farmers, have displayed substantial competencies. For instance, they deal efficiently with conflicts; convey the principles for maximising efficiency; show empathy for farmers, employees and customers' needs; inspire mutual trust; and apply easily the model of flat hierarchy. Thanks to the personal philosophy of Fritz Blauel, the governance structure was deliberately built to serve the interests of all stakeholders in the supply chain i.e. farmers, Blauel, and customers. The prime goal was to permit relationships to flourish, by being open and caring for others. In essence, by inspiring farmers, employees and customers with interest, commitment, trust and belief on their own competencies, Blauel has optimised both the contribution of each stakeholder in goals commonly set and the distribution of benefits. By virtue of Blauel's personal charisma, mutual long-term relationships were built.

In addition to the collective-management skills and marketing/entrepreneurial capabilities, Blauel's high awareness, as the constructor of the network governance, played a pivotal role in the network evolution. Awareness here is referred to the actors' capability of assessing correctly their own competencies, and the weaknesses and

strengths of the whole network governance structure, against the market challenges. The significance of this parameter has been inductively derived from the data, and therefore is novel and not predefined in the literature. Particularly, the Blauel couple proved their capability of (i) realising the network's problematic areas, including their personal deficiencies; (ii) discovering the right training in constructing a sustainable network structure; and (iii) applying the principles for maximising efficiency. To illustrate, when the Blauel couple initially introduced organic farming in Greece as "missionaries", they lacked any relevant knowledge i.e. organic farming, standardisation, marketing and organising a business. By applying their existing marketing/entrepreneurial skills, they collected most of the information needed. However, they could not avoid typical mistakes made by small entrepreneurs (owner/managers), such as job rotation; very concentrated responsibility, and low internal information flow. Facing the negative implications of an inefficient network governance structure, they realised and admitted deficiencies in their own collective-management skills, thanks to their high awareness. The Blauel couple sought formal training in Switzerland (i.e. external institutional support). Consequently, the pioneering current governance structure was designed and applied. It has enabled flat hierarchy, flexibility, adaptability, through coordination and internal flow of information/knowledge. The principle of "*collective learning*" where each subunit is strongly motivated not only to be self-reliant, but also to communicate/collaborate effectively, was explained to the employees by formal training. This resulted in advancing both the employees' profile homogeneity and skills. The above analysis clearly demonstrates that the awareness of the network governance constructor (in this case, Fritz Blauel) is a decisive contributor to satisfactory performance. However, it is fundamental for constructors to find a source of external institutional support (i.e. training in Switzerland) to compensate for the deficiencies of which they become aware. Furthermore, it is important to distinguish between formal qualifications and competencies based only on experience. The Blauel couple had both suboptimal transactional and transformational outcomes before seeking formal training in managing their enterprise.

Overall, the Blauel network exhibits sufficient competencies to achieve both satisfactory transactional and transformational outcomes. Given the apparently good market performance, the expectations for sufficient competencies displayed by the Blauel network members were confirmed.

5.6.4 Blauel Network Governance

The third network feature that impacts on performance is the governance structure. It is compromised of five different aspects: (i) power distribution; (ii) accountability/formality; (iii) mechanisms for information/knowledge diffusion; (iv) mechanisms for conflict-resolution/trust-building; and (v) mechanisms for monitoring/evaluating/planning (Grandori and Soda, 1995; Provan and Kenis, 2008). The theoretical proposition states that if these five aspects are apparent at a sufficient level, then good network performance is anticipated. Again, considering the almost optimum transactional and transformational performance outcomes of the Blauel network governance were anticipated for this network.

The analysis identified certain findings that accorded with theoretical propositions, which are discussed now under the five sub-features. Regarding power distribution, a flat hierarchy was introduced to Blauel network as a result of the training in Switzerland. The philosophy behind this hierarchy is illustrated by Fritz Blauel's following quotation:

"Flat hierarchy in its essence means care and knowledge of the person in the top of power for all subordinates. All strategic decisions were made by respecting the preferences and needs of those applying them and based on information/knowledge of all relative departments. Although I take the decisions, I have first absorbed all ideas, requests and difficulties of the farmers and employees, and incorporate them in my decision". [The Entrepreneur-Leader]

"Ideally, Blauel Ltd is a self-learning organisation...I told all the subgroups (in the company) ...that they have to find out new solutions, they have to become self-learning and self-improving in their area, and then communicate to the rest of the company, their needs, their progress, what they have learned and what they want, what is bothering them. So each department is learning and updating itself. So this is the idea because we think it is too big for me and my wife to

improve every little bit, as we did 15-20 years ago. We changed our style for organisation, ... of leadership, of how we handle risk, how we handle information. I mean that the leaders also are a group which has to learn within the organisation." [The Entrepreneur-Leader]

The impartiality in the indiscipline penalty for farmers offending against the obligations of the Blauel bio-program revealed that power was equally distributed among farmers. This was found to be crucial to build up relationships of mutual trust.

Concerning accountability/formality, Blauel Ltd established a quality-reward system for farmers to stimulate quality improvement. The Blauel bio-program contract also determines the support offered by Blauel Ltd to the farmer (i.e. administrative support with organic subsidy documentation; training; free agriculturist's advice and covering certification costs; 20% price premium for conventional olive oil) and has a mission statement. It sets the obligation of five-year membership and delivering the whole quantity, that secures scale economies. However, Blauel's refusal to use his right for legal action against those farmers abandoning the Blauel bio-program is indicative of Blauel's respect for the farmers' free will. Finally, Blauel Ltd has its own clerical staff and offices.

"The contract (the Blauel bio-program) has a symbolic meaning for us. There have been farmers who abandoned it and left, but we took no action against them. But it is a nice symbol, because it describes explicitly to farmers what organic farming means, what the cooperation with Blauel means, what we promised to offer them, all the benefits they gain by signing it." [The Entrepreneur-Leader]

As regards the mechanisms for information diffusion, Blauel Ltd regularly organises informative meetings; employs four people as brokers for transferring knowledge and objective, accurate and confidential information to the farmers; and publishes a newsletter called 'Biotopos'.

"We have the department of organic farming, whose purpose is the promotion of organic farming and support, technical and administrative, of the farmers. We are very close to our farmers. We are those who advice which fertiliser is permitted to use, participate in fairs and learn the last developments and transfer

them this information. We have a newsletter called 'Biotopos' per two months."
[The Entrepreneur-Leader]

In regard to conflict resolution, two employees are responsible for the relationship with farmers, apart from transferring knowledge. They deal with all issues the farmers raise, resolve conflicts and clear misunderstanding, collect complaints and feedback on Blauel's proposed ideas; and work as 'representatives' of the farmers to Blauel. In this way, Blauel incorporates the farmers' response and perspectives in the early stages of the strategy design.

Finally, the mechanisms for monitoring/ evaluating/ planning of Blauel Ltd are discussed. After the training in Switzerland, Blauel Ltd established a systematic recording procedure of most internal processes in a similar way to all standardisation processes/ outcomes that have later been monitored under the ISO and HACCP specifications. The aim was to monitor, evaluate and improve efficiency. To sort out problems with customers, Blauel Ltd proved to have an exemplary procedure. As a result, the creativity, flexibility, efficiency and immediacy in the response of the Blauel enterprise is well recognised by its customers. Practically, the analysis and evaluation of each problem constitutes a collective task, for which a team of the managers of all relevant departments is created on the spot. Another priority constitutes the regular assessment of both the governance efficiency and the sufficiency of members/employees' competencies. For example, the employees responsible for the relationships with farmers identify early and record changes in farmers' interests and perceptions. By motivating the employees to self-learn and be confident in communicating their needs and expertise, the Blauel network hugely benefited from learning from everyone's experience, and highlighting the best practices. Overall, the Blauel network enjoys an advanced adaptation mechanism. In the Blauel case, there were no inconsistent findings concerning the proposal that an SME network is expected to perform well, if sufficient governance mechanisms.

In conclusion, the current governance structure of the Blauel network is a product of the personal charisma of Fritz Blauel himself, enhanced by the training for small entrepreneurs he had in Switzerland. This governance system is sufficient to compensate for the negative implications of the initially existing diversity in members profile and shortage in members/employees' competencies. Particularly, the governance ensures that the enterprise enjoys: scale economies; secure, high quality; noticeable flexibility in dealing with customers' complaints; coordination; good flow of information among departments and between enterprise and farmers; employees strongly motivated to contribute, to self-learn, self-improve in their field and communicate effectively their experience. Furthermore, Blauel Ltd builds trustful long-term relationships with both farmers and customers; achieves noticeable coordination in the supply chain; identifies early incompatibilities between network's values/strategies/actions/competencies and environment challenges; and maintains its functions even under hostile/unexpected circumstances. So, overall the Blauel network provides strong evidence that all five governance aspects described in the theoretical hypothesis are crucial for a satisfactory network performance.

5.7 Summary

This Chapter has presented an overview of findings concerning the historical evolution of the Blauel network, the contextual factors influencing it, and the present day network structure and performance. It has also assessed the impact of certain network features, derived from the literature, on performance.

To summarise, the case represents a high performing network established by Fritz Blauel, who early recognised the potential of organic olive oil exports. To persuade farmers to convert to organic farming and control/guarantee higher quality, Blauel offered a very supportive five-year contract. Social cohesiveness of some farmer groups increased the rate of diffusion of innovation. The considerable marketing and entrepreneurial skills of Blauel led him to seek information in European networks, since

he noticed a highly defensive attitude amongst actors involved in the Greek olive oil scene and amongst domestic public agencies. Having faced the typical difficulties of SME owners/managers, the Blauel couple had training, which led to significant changes in governance structure improving efficiency. Consequently, the Blauel network presents almost optimal outcomes in financial performance, organisation credibility, access to resources and positive change in attitude/ behaviour of both farmers and employees.

The next Chapter goes on to consider the case of Kefalas organic olive oil. Like Blauel, this case is of a processed product, but unlike Blauel, the network exhibits apparently weak market performance.

Chapter 6: Kefalas Organic Olive Oil - Case Description and Analysis

6.1 Introduction

Following the presentation of the Blauel case study, the results from the analysis of the second olive oil case, the Kefalas network, are described and discussed here. Kefalas Ltd produces, standardises and markets organic olive oil, Kalamata olives and olive paste of certified organic and P.G.I. quality. These products primarily are distributed abroad (i.e. UK, Germany, USA). Its own product label is 'Therapni'. Kefalas Ltd is located at Kefalas village in the Laconia prefecture.

The Kefalas case was selected based on two criteria: it represents a processed product and apparently weak market performance. According to the theoretical propositions, it was tentatively expected to find relatively weak network relations, and possibly hostile contextual conditions. The development trajectory of this case is shorter than Blauel and linked to it. Therefore it serves as an immediate comparison case. The geographic location of the case is the same as that of Blauel, depicted in Figure 5.1.

The Chapter begins by laying out the historical evolution of the Kefalas network in four phases, before examining how contextual factors have impacted on network evolution. The next section describes the present day Kefalas network structure, making some observations about its current performance. Finally, the Chapter assesses key network features and their impact on performance, and summarises the conclusions regarding this case study.

6.2 Historical Evolution

6.2.1 'Organic Farming is introduced to olive farmers of Kefalas village'

Until 1995, Kefalas farmers suffered from unfair treatment by trade brokers and

wholesalers buying conventional olive oil in bulk, without a contract to secure constancy and fairness. Although Kefalas farmers had fumed over this treatment, they avoided starting a countervailing collective initiative, because of their past negative experiences of failed farmer cooperatives. In 1995, the Kefalas village president contacted Blauel Ltd and was persuaded of the benefits of organic farming and the Blauel bio-program. Thanks to pre-existing social cohesiveness, trust for in the village president's initiatives and the intensive support of the Blauel 'bio-program', almost the whole village gradually converted to organic farming. This participation in the Blauel bio-program was enhanced further by the EU regulation and subsidy for organic farming in 1996.

6.2.2 'A fake market opportunity pushed a few farmers to establish Kefalas Ltd'

In 1999, a trade broker placed an attractive offer for collaboration with Kefalas farmers under the precondition that they would establish an aggregate corporation. The foundation of Kefalas Ltd had already been accomplished when the shareholders discovered that the offer was fake. The village president selected 23 young organic farmers based on ethos, age and inclination for novelty and cooperation to compose the critical mass of the Kefalas shareholders. Using his personal network, he collected all the information to establish the most sustainable form of collective action. He decided to create a collective enterprise, because this form constitutes a limited enterprise with the social sensitivity of a cooperative, but without compromising its discipline and efficiency, as previously happened in farmer cooperatives.

Within a few months, Kefalas Ltd was established. Having abandoned the Blauel bio-program, and later discovering that the trade broker was a deceiver, the Kefalas shareholders were left without any option other than selling again under unfavourable terms to domestic wholesalers in bulk. Consequently, the shareholders were discouraged, since they held a weak market position, and they had lost the support and

security of the Blaue bio-program. Kefalas Ltd became fragile. Simultaneously, like most Kefalas farmers, the shareholders needed to borrow money to cover their share required by the EU funding for improving farm infrastructure. Since Kefalas Ltd had a low return, its 23 shareholders faced problematic cash flow. Their high expectations from Kefalas Ltd were not met, so they were angry.

6.2.3 'Kefalas Ltd faces hard times – the disillusion'

The collection of information on good practices in organic cultivation, standardisation processes and marketing was a big effort for the Kefalas shareholders, because local agriculturists lacked knowledge and competitors refused to share it. From 1999 to 2001, Kefalas Ltd lacked its own facilities. At that phase, storage facilities were crucial, since the enterprise had limited control of the 23 farmer-shareholders' produce, stored at their homes. The trade brokers responded offensively to the foundation of Kefalas Ltd, and tried to convince the Kefalas shareholders to sell directly to them, rather than via Kefalas Ltd. Their ultimate goal was to dissolve the collective enterprise, by inducing some of the farmer-shareholders to dishonour their word for exclusive delivery to Kefalas Ltd, by offering attractive prices to them individually. This challenged the Kefalas enterprise's cohesion. The enticed shareholders were isolated and punished by the Kefalas commanders. Although, they were permitted to keep their shares of the Kefalas enterprise, they were prohibited to sell again their annual production to Kefalas Ltd, so they were forced to seek alternative buyers. In this way, the management overcame the challenge and effectively intra-communicated discipline. Thereafter, three categories of farmers from Kefalas village related to Kefalas Ltd were formed: (i) *a pool of farmers supplying occasionally* Kefalas Ltd when needed; (ii) *18 farmer-shareholders* enjoying full range of benefits of being shareholders e.g. the assured buy of their whole production at a premium price, better than category one; and (iii) *five offender farmer-shareholders*, who lost most benefits except for their shares and right to participate in the annual general meeting.

The spectacular increase of the Athens Stock Exchange monopolised the investment interest of both the customers and shareholders of Kefalas Ltd. As a result, the collective enterprise struggled to find buyers (e.g. domestic standardising and exporting units) for its annual production. Simultaneously, its shareholders required cash for investing in listed companies' shares. The manager of Kefalas Ltd reached a dead-end. He admitted the difficulties in the general meeting, shocking the shareholders, who stopped complaining about the inability of Kefalas Ltd to meet their demands on cash and immediate paying off.

Overall, this was a period of hard but necessary disillusion, since the shareholders realised that they had excessive enthusiasm and expectations, due to their lack of knowledge about real market challenges and limited marketing competencies. Obviously, imitating the Blauel bio-program was not enough for market success. They had oversimplified the challenges.

6.2.4 'Kefalas Ltd using EU funding builds its own facilities'

Kefalas shareholders preferred to tolerate delays in paying off rather than raising a bank loan. In this way, the shareholders capitalised the Kefalas venture, which constitutes evidence for their strong commitment to Kefalas Ltd. In order to break the barrier of lacking information, particularly on the standardisation process, the management of Kefalas Ltd asked other experienced enterprises (packers) to standardise their product and were physically present to observe carefully the whole process. However, those packers refused to share this information through discussion, so Kefalas management learned only by observing. Through foreign exhibitions, Kefalas Ltd expanded its clientele for the standardised product under wholesalers' own labels, e.g. Gaia Ltd or an Israeli importer.

In 2002, using EU funding, Kefalas Ltd built its own storage room and standardisation unit, and recently an olive oil press unit is near completion. All facilities satisfy high

organic certification standards. The shareholders' behaviour became regulated by written rules, as opposed to the verbal agreement existing in the previous two phases.

The village president resigned as Kefalas general manager on a plea of family reasons. He was replaced by his assistant, who had worked alongside him since the first phase of the collaboration with Blauel Ltd. The current general manager has an intensive inclination for networking. For example, he is a member of the foundation team of (i) the association of SMEs producing agrifood products of certified quality; and (ii) the public enterprise of 'Local quality agreement for Parionas area's product and services', a network facilitated by the Peloponnesus Periphery management agency.

Currently, Kefalas Ltd enjoys strong intra-cooperation and stable trustful relationships with a supplying pool of Kefalas organic farmers (100) in addition to its shareholders. As a result, Kefalas Ltd is one of the rare cases of organic olive producers in Greece that can secure each year both a large quantity (150tn) and high quality of product. Recently, it also provides high quality services to the downstream actors such as standardisation, and acts as a local trade broker. This attractive triplet of attributes (secure quantity-quality-services) has been gradually appreciated by some quality-oriented domestic downstream actors such as Gaia Ltd. In essence, the latter sees the Kefalas enterprise as a reliable upstream collaborator ("the tail of key players"), recognising the aforementioned Kefalas' competitive advantage over private trade brokers. Furthermore, Gaia Ltd benefited hugely from Kefalas' high innovation diffusion rate, coordination and proved internal discipline as well as the reduction of transaction costs.

The change in the way some downstream actors perceive the role of Kefalas Ltd, was followed by a slight change in their behaviour. The recognition of Kefalas' beneficial role as a reliable supplier justified more openness in sharing information/knowledge (i.e. about improving quality and minimising costs), enhancing only this role rather than that of a future competitor. Concerning marketing, Kefalas Ltd exhibits few own marketing channels established. 90% of its olive oil output is sold in bulk, instead of a standardised

product (10%) under its own brand ('Therapni') or customer's label. However, its olive oil reaches markets of USA, Germany, UK and Greece.

Domestically, some well-established brands have monopolised the market thanks to heavy advertising campaigns, and have made impossible for SMEs to access domestic multiple retailers. Kefalas Ltd is forced to follow only the marketing channel of domestic delicatessen shops and faces sharp competition from other domestic SMEs. Even some examples of illicit competition have occurred.

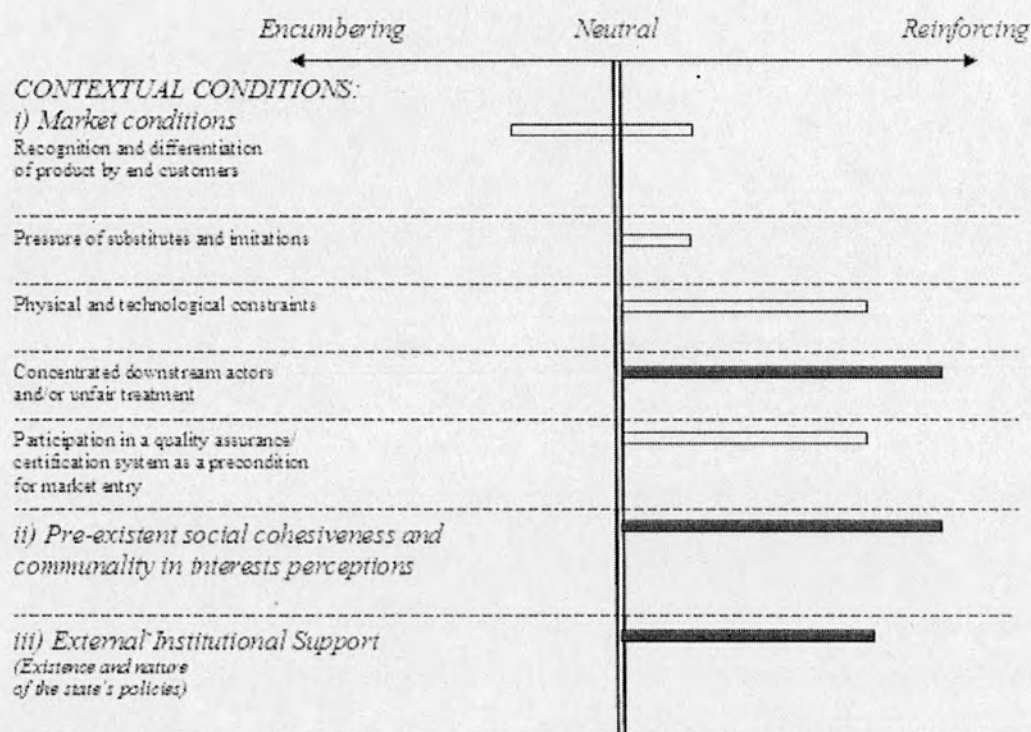
6.3 Analysis of Factors Influencing Historical Evolution

6.3.1 Introduction

The main issue addressed in this particular section is which contextual factors, derived from Chapter 3, have influenced the historical evolution of Kefalas network. An overall observation is that Kefalas farmers entered the organic olive oil market thanks to the 'chance' association with Blauel Ltd, not by discovering it alone. Therefore the Blauel impact is included in the analysis of many contextual factors. From the literature, three main categories of contextual factors were proposed to have an effect on network evolution: market conditions; social cohesiveness and external institutional support. For Kefalas, many of these seem to play a role. Figure 6.1 summarises the impact of all factors diagrammatically, most important impacts are depicted with black bars, less important with white bars⁵⁸. As can be seen from Figure 6.1, three factors were identified as particularly important to the Kefalas network evolution: (i) the unfair treatment of farmers by the downstream actors; (ii) pre-existing social cohesiveness and communality in interests/perceptions; and (iii) external institutional support. The nature of these factors and their impacts are detailed in the next sections.

⁵⁸ For an analysis of the less important contextual factors for the Kefalas case study, see the comment for the footnote 58 from Chapter 6 in the Appendix I

Figure 6.1: Contextual factors Reinforcing and Encumbering the Collective Action or Networking Activity in SME Networks of Kefalas (K) Case Study



6.3.2 Unfair Treatment of Farmers by Downstream Actors

The theoretical proposal from the literature is that the unfair treatment of fragmented suppliers by concentrated downstream actors may stimulate the former to join resources into a 'countervailing power' network (Galbraith, 1980). The results of Kefalas study revealed that this is not always a straightforward process.

In the Kefalas case the lack of a contract securing stability and fairness in transactions permitted unfair treatment of farmers by the trade brokers and wholesalers of conventional olive oil. Having fumed over this treatment, Kefalas farmers indeed considered the option of collectively increasing their bargain power. However, this thought remained a 'wish', due to their past negative experience of failed farmer

cooperatives. They did not believe it as a feasible solution, until they experienced the Blauel bio-program.

Despite the fair treatment, this program, in fact, constituted an intermediated step in the networking process: the 'school', the model of sustainable collective action. The involvement in such a well-organised collective scheme slowly changed Kefalas' young farmers' perception of their capabilities of establishing a similar one. Thereafter, thanks to the new positive experience in collective initiatives, the existence of a strong leader and critical mass and strong pre-existing social cohesiveness, the aforementioned 'wish' was materialised. In conclusion, it is noticeable that the fair treatment on behalf the downstream actors does not necessarily lead to the termination of networking activity of fragmented suppliers. In this case, the need for countervailing the power no longer exists, but other motives such as personal entrepreneurial ambitions can emerge.

Nevertheless, the question of when and how the thought of establishing an 'own networking initiative' is materialised seems to constantly interplay with the downstream actors' response. In the Kefalas case, first, a fake market opportunity was decisive, as a pull factor, in bringing into effect the idea of establishing the Kefalas collective enterprise. Second, because of personal philosophy to respect farmers' free will, Blauel did not use his legal right⁵⁹ to block Kefalas farmers' independence of the Blauel bio-program. This permitted the unobstructed foundation of Kefalas Ltd and in addition to Kefalas shareholders, all the rest of the Kefalas farmers gradually abandoned Blauel's collaboration to supply Kefalas Ltd. Third, the offensive reaction of some trade brokers and wholesalers, offering enticing prices to violate Kefalas shareholders' verbal agreement on exclusive supply set a serious internal challenge in the early stages of Kefalas Ltd. The ultimate goal was to dissolve the Kefalas partnership by proving weak intra-cohesion. Kefalas shareholders had two options either give in or resist. The Kefalas management isolated and paradigmatically punished the few offenders, so managed to

⁵⁹ The Blauel bio-program contract stipulated the five-year exclusive supply to Blauel Ltd.

effectively communicate discipline and strengthen the shareholders' cohesiveness and belief of "being capable of making this collective scheme work".

Overall, the downstream actors' unfair treatment indeed stimulated a strong social discussion for establishing "countervailing power" networks. However, whether fragmented suppliers will progress in action or not, seems to be a matter of confidence, dramatically influenced by positive past experience of collective initiatives, existence of a leader and critical mass, and the degree of pre-existing social cohesiveness. In contrast, the downstream actors' fair treatment cannot guarantee the termination of networking activity of fragmented suppliers. Moreover, a model of a sustainable collective scheme such as the Blauel bio-program can increase the suppliers' confidence and interest in establishing their own network initiative. Finally, the downstream actors' response to the suppliers' collective initiatives tends to be offensive, testing the confidence and commitment of critical mass in the early stages of the collective scheme. This challenge can either dissolve or credit the suppliers' partnership.

6.3.3 Pre-existing Social Cohesiveness and Community in Interests/Perceptions

In Chapter 3 the theoretical proposition stated that the existence of pre-existing social cohesiveness of network members and communality in interests/perceptions enhances the emergence and sustainability of SME networks, providing that a capable leader exists (Scott, 1988; Baker, 1995). The Kefalas case provides findings consistent with this proposal, highlighting social cohesiveness as a decisive factor for the emergence and sustainability of Kefalas collective action.

Strong social cohesiveness among Kefalas farmers is reflected by the spirit of emulation; happiness derived from the prosperity of their fellow-villagers; and willingness to support a collective effort. These strong social bonds played a pivotal role in the Kefalas network (i) creation, (ii) expansion and (iii) maintenance.

Regarding network creation, the leader (i.e. the village president) relied on communality in interests/perceptions, derived from social cohesiveness to select a solid and duteous critical mass (i.e. the 23 shareholders), resistant to crises. In practice, he secured communality in interests, by prior evaluation of how compatible the personality and behaviour of each person was with the philosophy of the particular networking initiative. He avoided people who focused on individual and short-term benefits; sought effortless gain; showed indiscipline, suspicion, and lack of disposition. It was the leader's responsibility to ensure communality in interests, because social cohesiveness was found to be more a precondition rather a guarantee for communality in interests; however a sustainable critical mass seems to need both. Concerning network expansion, both as participants of the Blauel bio-program and as Kefalas shareholders, the farmers' acceptance of innovative ideas was accelerated thanks to social cohesiveness, ensuring economies of scale. Regarding network maintenance, when the Kefalas shareholders abandoned the Blauel bio-program, they lacked an alternative source of agricultural guidance for organic farming. Based on strong social bonds, they collectively found and applied solutions.

Overall, in addition to the leader and the model for sustainable collective action, social cohesiveness was the connecting ingredient that boosted the confidence of Kefalas farmers to act collectively.

"At Kefalas village, the spirit of emulation is strong. Seeing the progress of our fellow-villager e.g. farm innovative investments, we try harder to catch him and become even better. No, we are not trying to drag him down, just to improve ourselves more." [Kefalas Shareholder]

"First, because we were young looking for a better future...we could take risks. As personalities, we were more or less a big common group, 90% of us are friends before we collaborate. Second, we had approximately the same age. At the village, this means common experiences, the same school class,...I mean the connection pre-existed. There were not 23 people who met suddenly to cooperate. Some of us are also relatives." [Kefalas Shareholder]

"An initiative similar to Kefalas Ltd can start when first a vision for the future exists. Second, some people willing to show trust, blind trust, to those who will manage their produce. Third, a common vision, I mean people with common minds, perceptions...also these people need to have a pre-existing inclination towards cooperation. I mean you need to have already learnt how to coexist and cooperate, otherwise it is very difficult, because ok, simply we all have a common vision, I mean we all want to see the product sell well and have a profit. Yes, the common vision to some extent is given. Furthermore, you need to have learnt how to cooperate, because the path to reach the goal is not the same for all, for others is a line, for others a zig-zag or a curve. If you cannot have some compliance, to say "yes, I believe this is the right, but do it in the other way, no objections", nothing can progress." [Kefalas Shareholder]

6.3.4 External Institutional Support

According to the literature and theoretical propositions, the external institutional support is supposed to reinforce the emergence and sustainability of SME networks, providing that it respects SME networks' autonomy and self-management, as well as promotes their flexibility and efficiency (Ryan *et al.*, 2004). In the Kefalas case, two situations were observed regarding the factor 'external situation support': (a) complete lack of support, and (b) existent and beneficial one.

First, the complete lack of support was found to make Kefalas Ltd vulnerable especially at its early stages. Having abandoned the administrative support offered in the Blauel bio-program, Kefalas shareholders faced difficulties in completing the bureaucratic procedures needed for the organic olive oil subsidy application, by themselves.

"At the beginning we had a big shortage of information and knowledge. We lacked much information on how the custom office operates, about the money transaction with the banks...It was hard times" [Kefalas Shareholder]

"After a very hard effort, through huge bureaucratic procedure, we managed to have some European funding for our standardisation equipment. Apart from that, there is no motivation from the State, None exchange with the public agencies is clear, flexible to help you to start and have some progress as a farmer group or individual organic farmer. There is a chaos of bureaucracy. The given directions are conflicting. Sometimes, it happens to meet people from private agencies with some expertise and give you some shortcuts within this

labyrinth. When you ask information to the public agencies, they give you vague answers, or send from one to another agency. New regulation are introduced, but not clearly explained to us. Public agencies need to be more effective and flexible.” [Kefalas Shareholder]

“From the State, we ask for information guidance, not money. There are lost European finding opportunities because little is explained. At Kefalas village, there was some progress only because there were a few capable people, who put a considerable effort to discover all opportunities by themselves, and on those we, the rest, have relied on. Regarding the market, we had lack of knowledge, how the whole system works... that’s why we, as farmers, were suffered and continue to suffer from the unfair treatment by the trade actors. Here, we are in a privilege position thanks to Kefalas Ltd, which proves the lost opportunities in other villages.” [Independent Farmer]

Due to lack of training, the employees of public agricultural agencies initially struggled to apply the EU legal framework causing loss of subsidies for farmers. The village president, as the manager of Kefalas Ltd, used his personal network to avoid such unfair treatment. Besides, Kefalas Ltd suffered hugely from the lack of any public source offering valid information/knowledge of best practices on standardisation, organic farming and marketing. As a result, the domestic downstream actors (i.e. standardisation units, wholesalers, retailers) appeared to “hold back or give out wrong information” which functioned effectively as a market entry barrier. This highly defensive attitude of domestic agrifood business actors slowed down the development of Kefalas Ltd, increasing its vulnerability at the first stages. Since Kefalas shareholders could not find alternative sources of valid information/knowledge such as European exchange networks, the lack of external institutional support hugely impacted on them. For instance, instead of having access to training for standardisation, they wasted time and resources by simply observing the procedure performed by the experienced standardising actors. Kefalas Ltd and other agrifood SMEs, including Gaia Ltd responded to the lack of external institutional support by establishing ‘the Association for Greek Agrifood Products of Certified Quality’, in 2004. The aims of this bottom-up networking initiative are to exert pressure on the government’s policy; to communicate

effectively their problems; and offer external institutional support adjusted to their real needs (e.g. accurate and prompt information on legislation and funding opportunities).

Second, regarding the existing and beneficial 'external institutional support', the Kefalas case revealed the considerable benefits of two well-organised and coordinated initiatives, one top-down (i.e. Parionas Quality Agreement) and one bottom-up (i.e. the Blauel bio-program). Regarding the former, the Peloponnesus Management Agency and a private developmental firm have coordinated as network facilitators, the establishment of the SME cluster of Parionas Quality Agreement. In essence, they accelerated the maturation of the conditions for SMEs' horizontal networking. By being engaged in guided 'soft actions' i.e. participating in international fairs, organising local conferences and a campaign for the cluster, Kefalas Ltd was educated on the culture of solidarity, inter-dependence, and reciprocal help. Despite the lack of direct public funding, the current Kefalas manager recognised these 'soft actions' as the most efficient way so far to obtain 'tacit' knowledge in entrepreneurial networking and marketing. Moreover, he admitted that he successfully applied this 'tacit' knowledge in the bottom-up networking initiative, described above. Kefalas Ltd is the best supporter among participants, and in return gains the most expertise in marketing; in promoting the distinctive characteristics of local territory, and in best practices of inter-firm collaboration. This is why, Kefalas Ltd is now invited to bear testimony of the benefits to SMEs in other top-down networking initiatives, organised by the Peloponnesus Management Agency.

By being engaged in the Blauel bio-program, the Kefalas shareholders understood that since the 'organic' certification postulates by definition the ability of actors to monitor and certify the quality, they had to maintain higher levels of professionalism, economies of scale and effective internal communication. Therefore, they closely imitated the structure of Blauel Ltd (i.e. a limited enterprise, with strong local social sensitivity) and the character of the Blauel bio-program (i.e. discipline: shareholders' obligation for exclusive supply, payment according to the quality delivered, supportiveness,

establishing long term, reciprocal relationships with the pool of 100 collaborating farmers and the olive processors).

Overall, the lack of external institutional support was found to dramatically increase the vulnerability of the Kefalas network and to encourage a defensive attitude. It set a challenge for Kefalas actors to find alternative sources of valid information/ knowledge and stimulated the communication between suffering firms to collectively address the problem. In contrast, external institutional support aiming to both accelerate the maturation of the conditions for SMEs' horizontal networking, and advance SMEs' entrepreneurial networking and marketing competencies, was found to benefit hugely Kefalas' networking and survival capacity. The Kefalas results reveal that external support via valid information and knowledge of "how to do" both tangible (e.g. standardisation) and intangible (e.g. build sustainable networks; force quality improvement; add value; marketing) tasks, appeared to be an essential asset and more crucial to adding product value than public funding.

6.4. Structure of the Current Kefalas Network

Having presented the impact of contextual factors on the historical evolution of Kefalas, the Chapter continues by analysing the network's present day structure and performance. The Kefalas network structure is presented in Figures 6.2, 6.3 and 6.4.

Figure 6.2 illustrates the six-stage supply chain, where the Kefalas enterprise is the focal point. As it shows, the first stage of the chain comprises of input suppliers to farmers or standardisation/packaging units. The second stage consists of 123 Kefalas farmers of organic olive oil, of which 23 are shareholders of the Kefalas enterprise. 100% of output is certified as PGI and organic by the certification body, DIO Ltd. However, since 2001 five offender shareholders of the 23, keep only their share and right to participate in the general meeting, losing the right to supply Kefalas Ltd. The third stage includes two private olive processing units, with which Kefalas Ltd has a close collaboration. At the

next stage, there is the storage and standardisation of olive oil at facilities of Kefalas Ltd or of other private enterprises e.g. Gaia Ltd. 90% of Kefalas output is sold in bulk to other standardisation/wholesaling units, with the most important: Gaia Ltd, absorbing 30% in 2004. Only 10% is bottled at Kefalas' facilities under its own label ('Therapni') or customers' label. The final stage refers to the distribution of olive oil to retail outlets. 95% of output is distributed by domestic standardisation/wholesaling units or foreign wholesalers and import agents/brokers to small local retailers or multiple retailers, abroad or domestically. Kefalas output reaches foreign markets of USA, Germany, UK, Scandinavia. 5% of output distributed directly to domestic small delicatessen shops.

Figure 6.3 and 6.4 present the network actors external to the supply chain, with which Kefalas Ltd is highly involved and exchanges knowledge/information. They are, respectively, the domestic private/public agricultural/developmental agencies; the 'Olive and olive oil' magazine; the 'Association of Greek Agrifood Products of Certified Quality'(Figure 6.3); and, the Parnonas SME cluster called the 'Local Quality Agreement for Parnonas Area's Product and Services' (Figure 6.4). It is noticeable that all aforementioned external actors are domestic ones.

Overall, the Kefalas network is characterised by a small number of shareholders, and contrary to expectations, fairly tight linkages between farmers. However, it lacks links with European knowledge/information exchange networks external to the supply chain, although it has surprising strong links with both the association and Parnonas cluster, which constitute domestic knowledge/information exchange networks.

Figure 6.2: Internal Actors of the Supply Chain: The current Kefalas Network

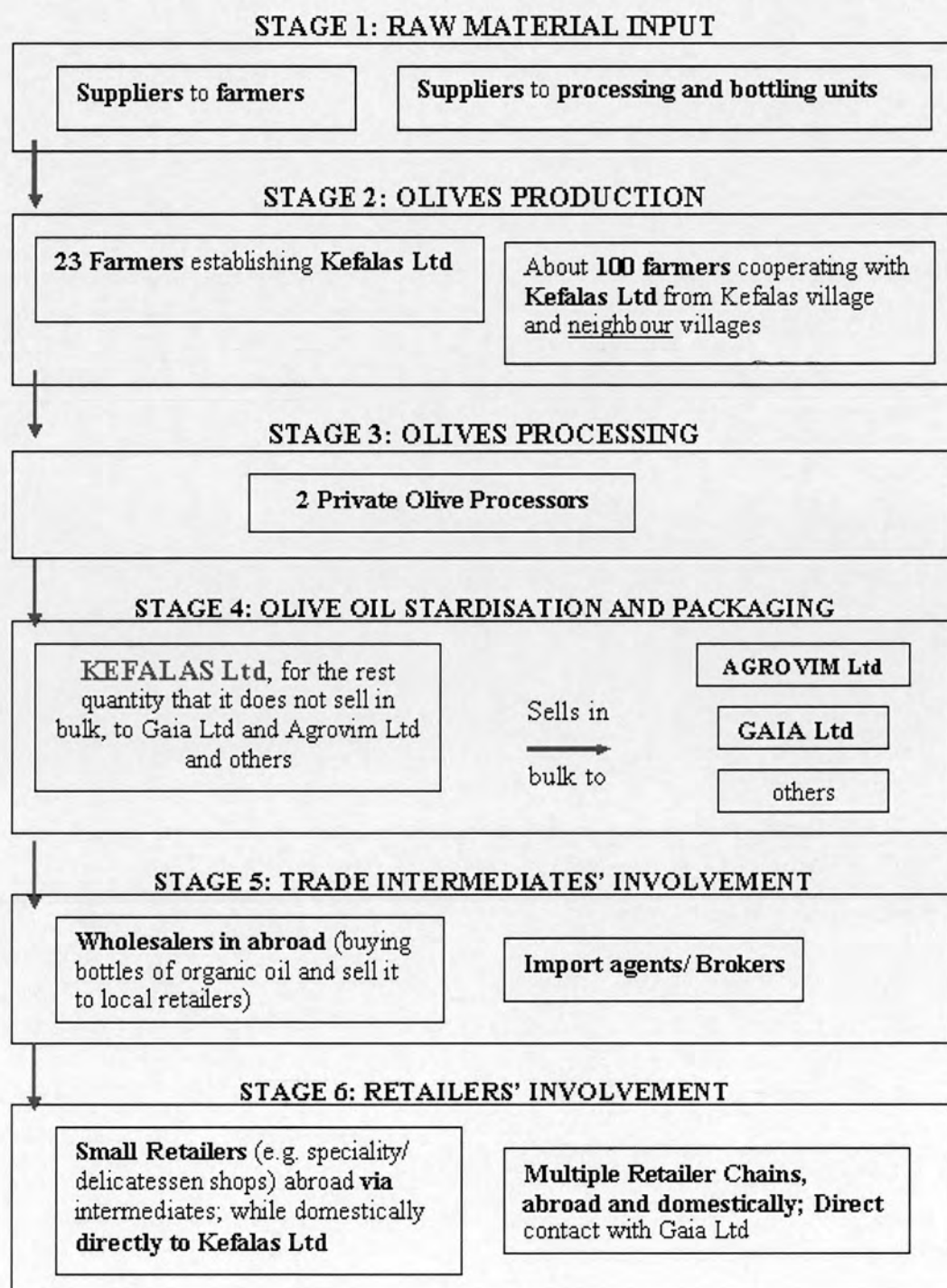


Figure 6.3: The Present Day Structure of ‘Bottom-up’ Network Initiatives of Kefalas Ltd

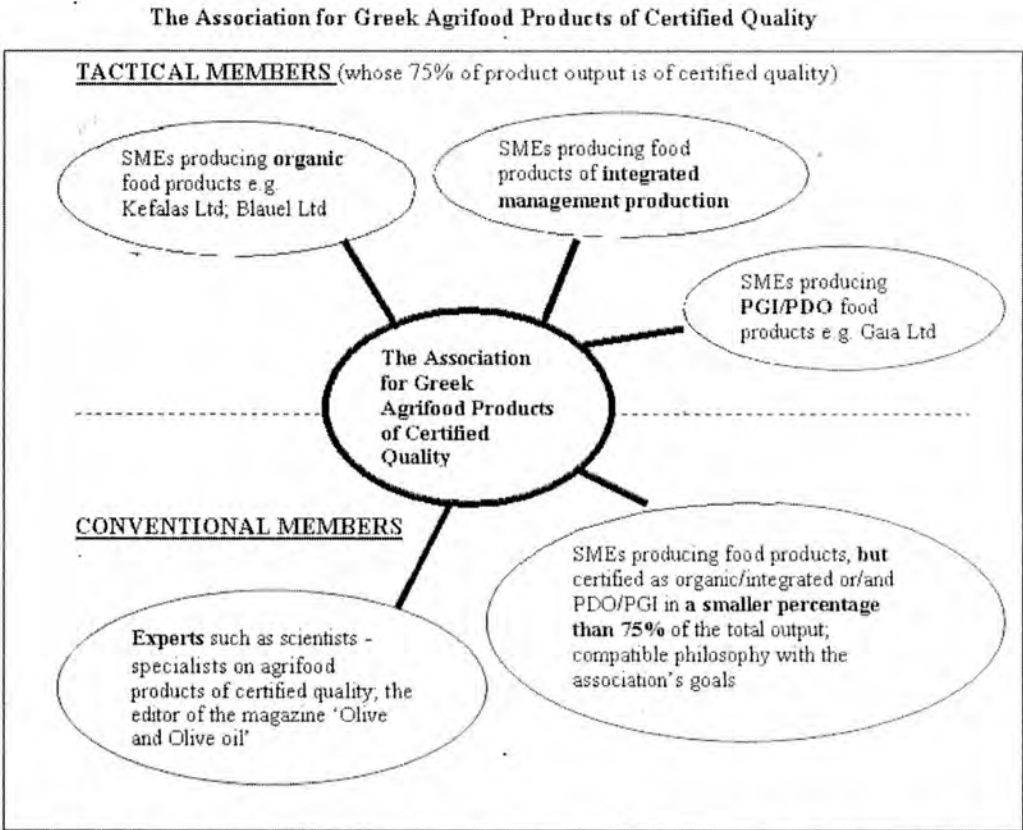
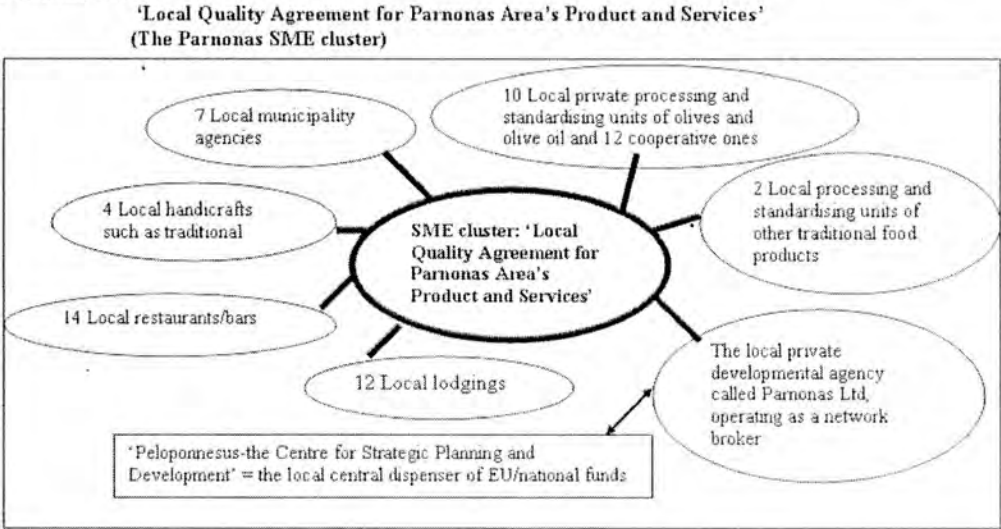


Figure 6.4: The Present Day Structure of ‘Top-down’ Network Initiatives of Kefalas Ltd

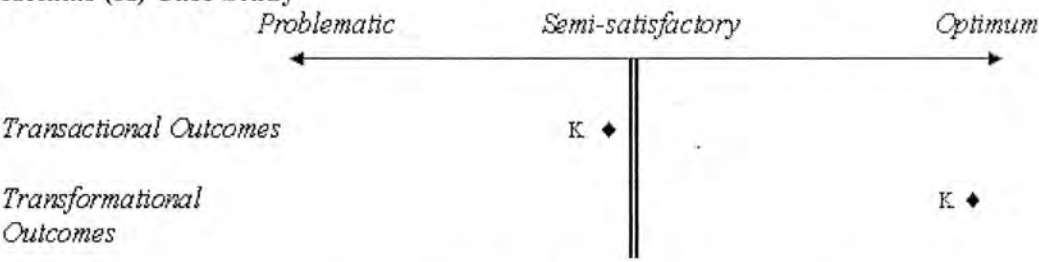


6.5 Performance of the Kefalas Network

6.5.1 Introduction

The Kefalas case was chosen on the basis of apparently weak performance, based only on an external judgment. So, the purpose of this section is to undertake a more detailed internal assessment, seeking to validate whether or not the initial judgement was true. According to Human and Porvan (1997) two types of network performance outcomes exist: transactional and transactional. Transactional outcomes refer to the improvement in financial performance, organisation credibility, and access to resources, while transformational ones relate to a change towards a more cooperative attitude/behaviour. In the Kefalas case, less than optimum outcomes were expected, as it was selected for its apparently weak performance. Surprisingly, this case had the closest to optimal transformational outcomes, compared to other three cases, but transactional outcomes were found to be less satisfactory (Figure 6.5).

Figure 6.5: Transactional and Transformational Performance Outcomes of the Kefalas (K) Case Study



6.5.2 Transactional Outcomes of the Kefalas Enterprise

As Figure 6.5 suggests, the analysis revealed that both the Kefalas shareholders and the farmers supplying Kefalas Ltd experienced some positive performance outcomes. However, since 90% of Kefalas output is sold in bulk, the overall transactional outcomes are deemed less than satisfactory.

More specifically, 18 of the Kefalas shareholders enjoyed a range of transactional benefits: the assured buy of their whole production at a premium price, better than other farmers supplying Kefalas Ltd; reliable information and administration support on demand; secure storage; capacity to add value through own standardisation facilities; and scale economies. Also their credibility to suppliers, customers and public agencies as Kefalas shareholders, rather than fragmented suppliers, has been increased. For the remaining five shareholders (the offenders) the benefits are restricted to only retaining their shares and the right to participate in the annual general meeting.

Finally, the pool of Kefalas farmers supplying Kefalas Ltd enjoys fair payment and a single transaction contract. Although the Kefalas enterprise buys only the quantity needed, without an obligation to buy the whole quantity every year, it offers reliable information and administration support on demand, and economical support (i.e. a deposit), in case of farmers' emergent personal need, as happened for the 18 shareholders. The prosperity of Kefalas village has been increased, thanks to the existence of Kefalas Ltd.

Nevertheless, despite the Kefalas' own standardisation facilities, 90% of output is sold in bulk. Kefalas Ltd also struggles to establish its own market channels for its standardised product, causing loss of profits from adding value. Most agreements with the downstream actors are verbal, adding a risk of exploitation. Even with Gaia Ltd, Kefalas has a quite unilateral relationship, facing problems in reciprocity and communication. Overall, less than satisfactory transactional outcomes reflect weak market performance, as was expected.

6.5.3 Transformational Outcomes of the Kefalas Enterprise

Contrary to expectations, there was evidence that Kefalas shareholders experienced considerable transformational outcomes because they belonged to the network. First, thanks to the existence of Kefalas Ltd, its shareholders jointly bid for large projects, e.g.

large orders from Gaia Ltd or foreign importers and successful applications for EU funding for infrastructure. Second, key interviewees emphasised the radical change in attitude, which the shareholders were forced to make, during the “disillusion” period (i.e. third phase). Their biggest challenge, intensified by external unfavourable conditions (e.g. offensive reaction of trade brokers; market difficulties due to the increase of the Athens Stock Exchange) was to adapt to the requirements of being the shareholders of a collective enterprise. In other words, the Kefalas farmers were required to play the role of the wholesaler and owner of a collective standardisation unit as shareholders. For instance, they had to accept discipline, meritocracy and lack of special treatment, and focus on long-term collective interests instead of short-term personal ones. This change in attitude/behaviour was found necessary for the collective action to be sustainable and effective.

“It has been difficult for us to move from the mentality of the farmer towards that of the Kefalas shareholder, e.g. the trading actor who takes risks, invests, and has delays in being paid off...We now follow the average market price, trying to be competitive and secure our sales for the next years, rather than simply selling the product to the trade broker or olive oil processor and forgetting it after that, as we used to do. Now, we are in the middle of an effort, a long-term commitment, if you look for only immediate gains and think one-sided, you get lost. Our goal is to store our product with less cost than that as individuals did, sell larger product quantities of certified quality to achieve better prices, and guarantee the availability. My personal goal as the manager is to find at least two stable marketing channels to absorb all our produce packaged.” [The Kefalas General Manager]

“Each year, we become more ‘grounded’, disillusioned and more professionally conscious, responsible towards Kefalas Ltd. You see the farmers supplying Kefalas Ltd become more concerned with the quality of their product, through the information provided by Kefalas Ltd, for example collect more carefully their olives, use proper containers for carrying the produce...” [The Kefalas General Manager]

“We used to arrange everything individually and sometimes gain a special treatment, but now as Kefalas Ltd, we are a group, and those individual privileges are past. Now all the benefits, as happens with responsibilities and costs, are shared. I mean all the negotiations are made by the Kefalas commanders, and the privileges are enjoyed collectively, not individually. If you

do want to accept this, the collective scheme cannot work. Because the surplus value has been created collectively, it is a shared, common asset. ...This was hard to understand at the beginning, but some first results considerably helped. Here, our word of honour is important, we keep it. Now we see a part of our dreams to have become true. This encourage us with stronger patience and tolerance to potential future failures, we have become more open-minded and involved in more innovative actions. As a group, we also reach a compromise more easily” [Kefalas Shareholder]

The transformational changes were mainly channelled through the general manager, with whom the 18 shareholders often meet informally. It is the general manager who communicates the problems, the need to stay united, and be more market oriented. In this way, the shareholders improve their tacit knowledge in decision-making and their market-orientation attitude is enhanced. Regarding the pool of 100 farmers supplying Kefalas Ltd, the transformational outcome was that they have comprehended the importance of producing olive oil of high quality and establishing a trustful bilateral relationship with Kefalas Ltd. This has been achieved through their personal discussions with the Kefalas shareholders/manager and the fair treatment by Kefalas Ltd.

Overall therefore, the analysis showed less than satisfactory transactional but almost optimal transformational outcomes for the Kefalas network. Given the apparently weak market performance of Kefalas Ltd, the transformational results were not consistent with expectations. The following sections analyse the features of the Kefalas network seeking to explain these outcomes.

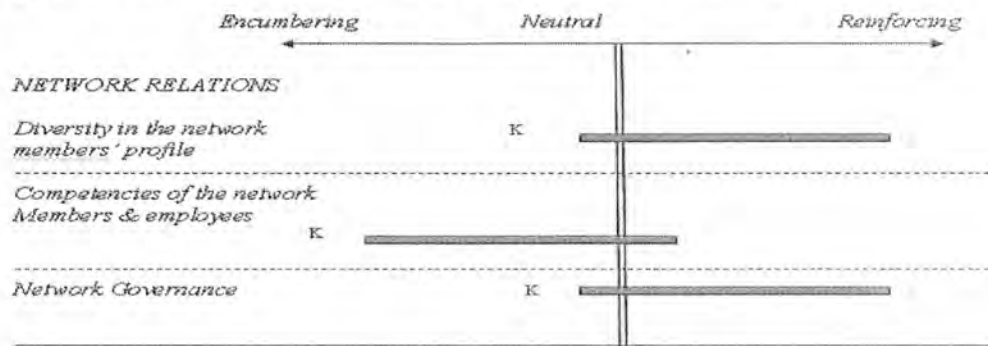
6.6 Features of the Kefalas Network

6.6.1 Introduction

This section of the Chapter examines the impact of key network features on performance, guided by the theoretical propositions offered in Chapter 3. All the three features suggested by the literature are discussed, namely: network members' profile, their competences, and network governance structure. Figure 6.6 summarises the

findings, indicating that member profile and network governance structure had generally positive effects on performance, but members' competences could help to explain weaker transactional outcomes.

Figure 6.6: Effects of Key Network Features on Performance Outcomes



6.6.2 The Kefalas Network: Member Profile

The first feature of a network that impacts on performance is the members' profile. According to Milliken and Martins (1996) two profile types are discerned, physical and attitudinal. The theoretical proposition is that profile diversity impedes performance outcomes. In fact, the analysis of the network revealed high homogeneity in members' profile, especially among the shareholders. Particularly, low diversity in both physical profile (e.g. young age; not having a second job; and large land size) and attitudinal profile (e.g. professionalism; willingness for investing more; seek innovation and believe in collective action) was observed. The only evidence for heterogeneity in the attitudinal profile was the decision of five stakeholders-offenders to dishonour their word for exclusive supply at the early stages of Kefalas Ltd. However, the management's resolute response prevented the rest of the shareholders from showing indiscipline.

These findings were somewhat unexpected and suggest first, that homogeneity in profile cannot alone guarantee strong performance on transactional outcomes. Low diversity

only appears to create a potential for optimum transactional and transformational outcomes. Second, paradigmatically punishing indiscipline within the critical mass may militate any increase in profile diversity, especially the attitudinal one.

6.6.3 The Kefalas Network: Competences

The second network feature influencing performance is the members' competences, including skills regarding production, marketing/entrepreneurship and collective management. If network members are sufficiently qualified according to their responsibility, then the network is expected to exhibit good performance (Provan and Kenis, 2008). Given the poor results on transactional performance, the Kefalas network members were tentatively expected to display some weaknesses in the aforementioned competences.

With regards to production skills, the Kefalas farmers have now good knowledge of organic farming and standardisation competencies, despite their initial serious difficulties to detect and gain access to sources of expertise. Since they were keen on investing and adopting innovation, they became pioneers of eco-friendly cultivating practices; farm infrastructure and compliant to agriculturist's instructions. So, their overall good production competences secured quality improvement and early application of innovation.

However, in terms of marketing/entrepreneurial skills the picture was found to be more complex. Thanks to his considerable entrepreneurial skills and the long involvement in local public administration as the village president, the Kefalas leader had a strong personal network, including public agencies and ministries. He used it to collect vital administrative information and deal with bureaucratic problems regarding (i) organic subsidy; (ii) establishment of a collective enterprise; and (iii) applying for the EU funding for infrastructure. For instance, his personal network filled him in on pros and cons of alternative forms of collective schemes in terms of discipline, sustainability, and

market efficiency. Therefore, he was able a priori to recognise the benefits of collective enterprises over cooperatives, and the flexibility advantage offered by a small number of shareholders. However, the leader's personal network did not provided vital information regarding market, standardisation, production and marketing, due to lack of links with domestic and foreign agrifood processing and trade actors. His little reliance on European networks is also noticeable. Moreover, the leader's marketing competences were proved almost insufficient to face the market challenges. Consequently, Kefalas Ltd delayed to collect the aforementioned information; and still struggles to build bilateral relationships and establish market channels for its own standardised product.

This shortage in marketing/entrepreneurial capabilities has slightly been reduced since the next general manager, i.e. the current one, has recently being expanding his "*tacit*" knowledge gained as the leader's best assistant. This small improvement resulted from his participation in marketing and networking activities of the Parnonas cluster, referred to as the "soft actions". Having a substantial contribution in this top-down networking initiative of the Peloponnesus Periphery Agency, which is the main body for public funding in Peloponnesus, Kefalas Ltd has managed to gain priority in funding and future developmental initiatives. The improvement in the Kefalas shareholders' entrepreneurial mentality is reflected by being receptive in pioneering, more sophisticated marketing ideas, for instance by capturing the intangible benefits of the 'Local Quality Agreement for Parnonas Area's Product and Services' (The Parnonas SME cluster). Evidence for improvement in the Kefalas manager's networking competences was given by his active involvement in the foundation of 'the Association for Greek Agrifood Products of Certified Quality'. Through this bottom-up network initiative inspired by the editor of the "Olive and Olive Oil" magazine, Kefalas Ltd increased dramatically its negotiation power over the governance's policy for product of certified quality.

Overall, the slight improvement in the Kefalas network members' marketing/entrepreneurial competences has so far been inadequate for reversing the weak transactional performance. This happens for a series of reasons. First, there is still

a shortage in the current manager's marketing skills, revealed through a discussion about market-orientation and professionalism. He referred to the commitment to the quality improvement in terms only of the core product, not of the augmented product or of the relationship with the downstream actors. This might explain some of his difficulty to build bilateral relationships with the downstream actors. Second, since the current general manager is the only broker of knowledge/information to the remaining shareholders, his communication abilities and level of market orientation dramatically influences the outcome of transformational process in perceptions/behaviours of shareholders. Third, the downstream actors, even Gaia Ltd, seem reluctant to share their marketing intelligence with Kefalas Ltd, a potential future competitor. This narrows the channel of marketing information/knowledge flow. Finally, despite the apparently satisfactory diffusion of knowledge among the shareholders by the general manager, the existing marketing/entrepreneurial skills seem to be concentrated within one individual, simply because the rest of the shareholders do not practice these skills through daily involvement in decisions/actions. So, it is questionable whether the rest of the shareholders are prepared enough to undertake management responsibilities, when elected, in other words have they enough "tacit" knowledge?

Regarding collective-managerial skills, the Kefalas leader exhibited considerable capabilities, such as evaluating the different collective forms and assessing the compatibility between the personality of potential members of critical mass and the philosophy of the particular network initiative. The dissolution of Kefalas Ltd was avoided during the hard 'disillusion' period, mainly because he proved decisive and enduring through crises. Most of these skills have been passed to the current manager (e.g. how to deal with difficult shareholders), but not to the rest of the shareholders. The current manager gained the 'tacit' knowledge by being the secretive and compliant assistant of the leader ever since Kefalas farmers joined the Blauel bio-program. The leader deliberately involved the current manager from this early stage, and explained every action, intending to train him to replace the leader, but ensuring that the philosophy and way of operation of Kefalas Ltd would be preserved. This reflects the

long-term perspective of the leader and his care for the collective scheme's sustainability. However, the effort to transfer 'tacit' knowledge to other shareholders seems not to be continued so deliberately by the current general manager. This jeopardises the future prosperity of a collective scheme, more than a private firm, since the management of the collective scheme is periodically elected.

Overall, the Kefalas network exhibits surprisingly considerable collective-management skills and production competences, which secure quality improvement, early adoption of innovation, intra-coordination and discipline. In other words, these create a good potential for satisfactory transactional outcomes. However, key deficiencies in marketing/entrepreneurial competences (e.g. shortage in marketing intelligence, and lack of reliance on European networks), and the fact that both marketing/entrepreneurial and collective-management skills are concentrated amongst few network members, explain the weak market performance. The negative implications of the shortage in the marketing/entrepreneurial competences were intensified by the domestic downstream actors' defensive attitude, limiting the potential for optimum transactional and transformational outcomes.

6.6.4. The Kefalas Network: Governance

The third network feature influencing performance is network governance. Particularly, the theoretical proposition is that high power distribution and accountability/formality may boost good network performance (Johnsen *et al*, 2008; Milward and Provan, 2006). Additionally, the existence of sufficient mechanisms for (a) information/knowledge diffusion; (b) conflict-resolution/trust-building; and (c) monitoring/evaluating/planning, is likely to enhance the network's satisfactory performance (Grandori and Soda, 1995; Provan and Kenis, 2008). Given the weak transactional outcomes, some of these governance features were expected to be lacking.

The findings are now presented according to the above sub-factors. Regarding power distribution, all shareholders have equal votes and opportunities to gain expertise, regardless the size of the land they own. Besides, the Kefalas network is strengthened by the impartiality in discipline penalty for both the shareholders and collaborating farmers supplying Kefalas Ltd, even if the latter have no decision power. One unanticipated finding was that because Kefalas Ltd is a cooperative enterprise, and not a cooperative, the shareholders seem more disposed to obey the majority's decisions, even when they belong to those disagreeing. In fact, after the "disillusion" phase they seem to have learnt to show obedience and acquiescence in the management's power and the introduction of stricter obligations, justified by market challenges. However, despite the small number of Kefalas shareholders and their high profile homogeneity, the existence of cliques and their 'games' of influence also constituted a surprising finding. These seeds for conflict made both the current manager and president more diplomatic, taking into consideration the group dynamics and protecting themselves against accusation for prodigal administration.

Overall, the power distribution in the Kefalas network was found to be balanced, promoting flexibility in decision-making and discipline, without generating a feeling of non-democratic leadership. The few examples of opinion sub-groups (cliques) can be attributed to individualism, a typical characteristic of the Greek mentality. However, the Kefalas commanders have so far successfully suppressed these behaviours through diplomacy, incorporating them into a constructive decision-making process.

With regards to accountability, in the Kefalas network it is clear what happens, and is achieved by whom. This stems from a quality-rewarding system for farmers and shareholders, and the fair recognition of contribution. It based on the clear distinction between behaviours that reinforce or encumber optimum transactional and transformational outcomes, according with which, the network members are rewarded or punished, morally or materially.

"If a farmer brings in olive oil of inferior quality, this is stored separately and paid with a lower price. The issue is arranged as follows. The Kefalas board of directors is informed, it informs the farmer and the discussion stops there. On

these issues, we operate quite autocratically. I mean you need to be autocratic on some issues, because if you are too open to discussion, you see the tree and lose the forest. Some issues are not negotiable. There is not any compromise regarding the quality.” [Kefalas Administrator]

Consequently, the existing accountability in the Kefalas network secures high quality and cooperative attitude. In terms of formality, Kefalas Ltd increased its perceived legitimacy through its established offices, a memorandum of the collective enterprise, and a contract with strict obligations for the shareholders to exclusively deliver and produce the best possible quality. Such “tangible proofs” of legitimacy for both internal and external actors of Kefalas Ltd were indicated by both the managers of Peloponnesus Agency and Kefalas Ltd, as indispensable for the sustainability of Kefalas network at the early stage of evolution.

Regarding mechanisms for information diffusion and knowledge transfer, accurate information was circulated in the Kefalas network through general meetings and personal discussions with the commanders or other shareholders. The shareholders’ small number and trust explain the effectiveness of these mechanisms. The collaborating farmers -not shareholders- are informed via personal discussions with the commanders, but only about production and quality improvement issues, since they do not participate in the decision-making process. Overall, the conduit of informational flow was found open both ‘within’ the Kefalas enterprise and the ‘outside’ part from the upstream actors’ side, i.e. the collaborating farmers. However, the same seems not to happen from the ‘outside’ part from the downstream actors’ side, which in practice matters more in the acquisition of sophisticated market knowledge than the upstream ‘outside’ conduit part. Since (i) the domestic downstream actors are not fully open to exchange information with the commanders of Kefalas Ltd, and (ii) the latter do not rely on the more open European information/knowledge exchange networks, the potential of information diffusion ‘within’ and ‘upstream’ the Kefalas enterprise remains unexploited. Practically, the limited information/knowledge that the leaders managed to collect, was effectively transferred to the rest of the shareholders.

Regarding knowledge transfer, the effectiveness of general meetings and personal discussions can be questioned. It is unclear whether the Kefalas shareholders elected in the future, have obtained the “tacit” knowledge regarding entrepreneurial/marketing and managerial skills, needed to generate optimum transactional and transformational outcomes.

Regarding mechanisms for resolving conflicts and trust building, relationships among the shareholders are informally maintained, through the peer/clique control and its group norms. Moreover, the current manager claimed that keeping the balance required the board of directors to include members of each opinion sub-group of shareholders, and better the leader of each one. Formally, disagreements are settled at general meetings where paradigmatic resolution of conflicts usually occurs. Both these mechanisms proved effective because of the shareholders’ small number and the commanders’ collective management skills.

As a result, all shareholders are forced to fully justify their arguments, avoiding vague blaming, which could cause trust shocks. There is no disinformation of the Kefalas shareholders, although those assessed (i.e. the president or general manager) coincide with those providing information needed for assessment. This positive result comes also from the effective accountability and mechanism for information diffusion ‘within’ Kefalas Ltd, described above. Overall, the satisfactory explanation of what decisions taken, under what speculation and criteria by whom; and of what was the particular context (e.g. market situation; regulations and trends) appeared to boost the Kefalas shareholders’ gradual transformation from ‘simple farmers’ to shareholders of a collective enterprise. It also proved to enhance the appreciation of discipline, and avoidance of conflict/trust shocks, giving Kefalas Ltd the ability to maintain its functions even under hostile/unexpected circumstance. Besides, the shareholders’ small number permits the commanders to identify easily changes in shareholders’ interests/perceptions and discuss these openly.

Finally, regarding mechanisms for monitoring/evaluating/planning, the Kefalas shareholders learn informally from everyone's experience, and highlight the best practices. Kefalas Ltd does not follow an ISO or HACCP protocol. However, the existing mechanism proved inadequate for discovering the shortage in the shareholder's marketing competences.

To conclude, given the less than (almost) optimal transformational and weak transactional outcomes, it was surprising to find quite effective mechanisms in Kefalas network governance, regarding (i) power distribution; (ii) accountability/formality; (iii) information diffusion; and (iv) conflict resolution. The existing governance of Kefalas network appeared to reduce gradually the diversity in members' profile and shortage in competences. Indeed, it proved sufficient to distribute the benefits derived from the transformation in attitude and behaviour to the great majority of the Kefalas shareholders. This success may be explained partially by the fact that the Kefalas governance had followed the principles of the Blauel bio-program such as: existence of a contract; setting high quality standards; openness and strong support to farmers, shareholders or not; and communicating the need for market orientation and professionalism.

However, it is crucial to mention that the Kefalas network governance is effective, conditional on the shareholders' small number. Indeed, the interviewees admitted no plans or willingness for future increase in this number, revealing their fears that the existing governance might fail to deliver the same transformational outcomes in a network with: (i) larger number of shareholders; (ii) more diverse member profile, (iii) more democratic structure i.e. a cooperative instead of cooperative enterprise; and (iv) commanders unable to respond effectively to trust shocks/conflicts. Besides, the existing governance structure is sufficient to circulate only production knowledge and general market information, but not to generate "tacit" knowledge regarding marketing and managerial skills.

There are several possible explanations for this contradictory finding to the expectations (the quite effective governance despite the weak transactional outcomes). It may be argued that when the Kefalas shareholders were the suppliers of Blauel, they had not experienced the way in which Blauel built trustful, long-term bilateral relationships with his downstream actors. Also, they did not appreciate Blauel's reliance on European networks of information/knowledge exchange. Therefore, since Kefalas Ltd relies only on the defensive domestic downstream actors to acquire market/marketing intelligence, the problem is the limited amount of information collected, rather than the effectiveness of governance mechanisms in diffusing this information. In other words, analysis reveals that Kefalas suboptimum outcomes may be caused more by the shortage in marketing skills of Kefalas commanders, their inability to comprehend and admit this shortage, and the defensive attitude of domestic downstream actors, rather than the governance structure itself. In contrast, it can be argued that the Kefalas network governance has an unexploited potential to generate favourable outcomes. Findings from this case study support that the network governance structure cannot be more sophisticated than the awareness level, the marketing/entrepreneurial skills, and collective-managerial competences of its commanders/leaders who construct it.

6.7. Summary

This Chapter has presented the findings derived from the analysis of the Kefalas network. Particularly, the network historical evolution, and how it was shaped by contextual factors has been discussed. In addition, the current Kefalas network structure, performance and key features have been analysed.

The overall conclusion is that the Kefalas network is a short-standing network, performing unsatisfactorily mainly in terms of transactional outcomes. Contrary to expectations, the network was found to enjoy strong inter-firm relations at the farmer level resulting from strong pre-existing social cohesiveness and prior involvement in the Blauel bio-program. The unanticipated findings were not limited here, since

considerable collective-managerial skills and production competences, as well as quite effective governance mechanisms were discovered. Some findings able to explain the weak transactional outcomes were the weaknesses in network members' marketing skills (e.g. difficulty to build bilateral relationships with the downstream actors; reliance only on domestic defensive networks exchanging information/knowledge) and their inability to comprehend and admit this shortage. The defensive attitude of domestic agrifood actors and the lack of institutional support did not help Kefalas Ltd to tackle market challenges. So, Kefalas Ltd still struggles to establish marketing channels for its own standardised product, selling 90% of output in bulk. This prevents the Kefalas enterprise from increasing profit by adding value. The overall impression left by the analysis of the Kefalas network is that there is an unexploited potential, hampered by the inability of network members to communicate it effectively to the downstream actors. Having now presented the results of the two "processed product" cases, the thesis now turns to presenting results of the "unprocessed product" cases. The next Chapter focuses on the case study of the Zagora apple cooperative.

Chapter 7: Zagorin Apples: Case Description and Analysis

7.1 Introduction

Having presented the results of the two olive oil case studies, this Chapter presents and analyses the results with respect to the case study of the Zagora apple cooperative (ZAC).

The ZAC produces and standardises apples. It is a farmer cooperative, established in 1916 at a remote mountainous village in Magnisia prefecture. Within its long history, it established the well-known premium brand 'Zagorin', leading the market. This case was selected based on two criteria: unprocessed product and apparently good market performance in terms of good competitive positioning and strong customer reputation (Fotopoulos and Krystallis, 2003). So, relatively strong network relations and possibly benign contextual conditions were tentatively anticipated.

The Chapter begins with an account of the ZAC's historical evolution, described in 5 phases. An analytical section then explains how some contextual factors influenced this evolution. A description of the current Zagora network structure follows. Then, some observations on the current performance of the ZAC are presented. The relation between the performance and ZAC's features are further analysed. The Chapter closes by summarising the results of the case.

7.2 Historical Evolution

7.2.1 'Establishment of the Zagora cooperative-from potatoes to apples' (1916-1964)

In 1915, the first national law for farmer cooperatives was voted. In 1916, 199 farmers mainly from the poorest Zagora quarter, Perachora, established the farmer cooperative to

counteract the exploitation from wholesalers. At that time Zagora farmers were cultivating primarily potatoes and smaller quantities of hazel-nuts, grapes, chestnuts and apples. Between the World Wars, the cooperative had an economic boom. Moreover, in 1945, it issued a cash receipt voucher for its members. Despite the 5-year Greek civil war (1945-1949), the cooperative attracted new members, reaching 358 in 1949. However, the economic and political crisis, following the civil war, resulted in many Zagora inhabitants moving out to cities or abroad. In 1955, the Potato Blight disease forced Zagora farmers to switch to apple production⁶⁰. Both crises rendered the cooperative almost defunct. In 1963, the government forgave some debts. The cooperative started almost exclusively to produce apples, so it was informally called Zagora apple cooperative (ZAC).

7.2.2 'Revitalising the cooperative-the Greek dictatorship' (1964-1980)

To counteract the wholesalers' exploitation, a communist leader and critical mass, from Perachora quarter, revitalised the cooperative in 1964. The farmer leading as the ZAC president, invested in wholesaling activities. Particularly, in 1965, the ZAC bought its first sale outlet in the Athens wholesaler market, and transport facilities and hired clerical staff.

From 1967 to 1974, the Greek dictatorship replaced the cooperative board of directors with farmers having a compatible political ideology; and forced the deregistration of many communist members. This deteriorated the ZAC, in spite of the new board's respecting the goals set by its communist predecessor, and successfully attracting funds to expand infrastructure (i.e. first cooling plant, first sale outlet in Thessalonica wholesaler market). In 1967, the dictatorship also forgave some debts. But by 1974, the wholesalers re-exerted power over the Zagora farmers who did not belong to the ZAC,

⁶⁰ The Zagora farmers cultivated their steep sloping land by hand and converted it to apple groves using this new red variety, Starking Delicious, introduced from California, since 1935.

by making enticing offers in order to make it doubtful, whether being a ZAC member was more beneficial or not. This rendered the cooperative almost defunct.

7.2.3 'Quality improvement using government funding' (1980s)

In 1981, Greece joined the EC and the socialist party was elected. In 1982, a new law (1257/1982) for farmer cooperatives boosted funding, but abrogated certain inspection mechanisms, both internal and external, and permitted political intervention.

A communist leader from Perachora quarter, experienced in wholesaling, was elected ZAC president (1980-1987). He believed that the ZAC should motivate not only Zagora farmer groups of left- or right- wing political beliefs, but also apple farmers of the adjacent villages to join the ZAC in order to achieve scale economies and quality improvement. So, he made judicious use of funding opportunities for increasing infrastructure and expanding to standardisation and export activities. Skilful personnel were hired. The ZAC established a multiple retail store and services of agricultural insurance and inputs (e.g. fertilisers, pesticides and animal feed stuffs) and tourism facilities. In this way, it controlled prices and advances the service level. In 1991, the brand 'Zagorin' was officially registered. However, by the end of 1980's, bad weather conditions gave poor crops. Since a ceiling for apples' price existed in the domestic market, the ZAC had neither the production volume nor the premium price. So, it accumulated large debts, because it could not pay off the high instalment for all those investments made within the 6-7 previous years. Despite debts, the ZAC was an exceptional case of democracy, transparency and equity, compared to most domestic farmer cooperatives related to scandals.

7.2.4 'Dramatic market changes-internal network tensions' (1990s)

In 1992, the Greek government pursued free-market policies –imports and retailer concentration (as described in Chapter 2) – which increased the ZAC's market challenges. In 1993, right-wing farmers' groups joined the ZAC, reaching 750 members,

98% of Zagora farmers. However, sub-groups primarily based on political and personal differences, cliques, gradually emerged and prevailed.

To keep informed on the best novel practices in apple production, standardisation and marketing, the ZAC general manager participated in EUROFRU, a European network for promoting the apple consumption, from 1992 to 1996. As part of this participation, the ZAC collected statistical data of quantities and qualities produced in Greece and exchanged with relative data from Europe. It successfully organised annual apple festivals at Zagora village (1992-1996), and the first European conference for apple production in Greece (22o PROGNOSFRUIT Conference) in 1997.

All information exchanged through EUROFRU, constituted a fundamental step in the design of the ZAC's marketing and sale strategy. Particularly, the ZAC manager inspired and first applied in the domestic market: a) the P.D.O. certification (EEC 2081/92) and b) the affixing of the 'Zagorin' label on each apple. The latter constituted a revolution, since 'Zagorin' apples were more effectively advertised on TV, using EUROFRU's funding.

Consequently, the 'Zagorin' brand became the first differentiated and well-recognised brand of fresh fruits by domestic end consumers, who expressed willingness to pay a premium price for its advanced quality. This obliged even the powerful multiple retailers to have the ZAC's product on their shelves. By controlling the largest quantity of the domestic apple production (5%), the ZAC has become the market leader.

Despite its considerable market success, the ZAC faced internal problems. In 1996, an expensive storage facility collapsed due to poor quality. Moreover, many ZAC members were dissatisfied with high costs of the apple festivals. Since in both cases relatives of the ZAC manager and president were involved, they were accused of nepotism. This triggered a series of leadership battles among cliques and intra-cooperative tensions. In 1997, a new board of directors stopped the apple festivals, exports and participation in

EUROFRU, also proposed the ZAC to exclusively collaborate with only one wholesaler in Athens. The rest of the Athenian wholesalers reacted causing controversy among the ZAC members. Finally, the general meeting discarded the proposal. This was the biggest intra-cooperative tension, which motivated less than 10 members to deregister and establish a private apple standardisation unit at Zagora.

7.2.5 'External pressures and internal difficulties' (2000-present)

Since 2000, the ZAC cooperative has faced two serious external problems: the pigmy-fruit disease and 'misselling' of Zagorin branded apples by wholesalers or small retailers. The former combined with bad weather conditions during 2000-2004 gave a very poor crop in terms of quality and quantity. So, the ZAC was forced to break long term collaboration with some customers, due to inability to cover the demand, which in turn, stimulated the increase of Italian apple brands. The 'misselling' refers to the phenomenon where some wholesalers or small retailers sell multiple quantities produced in other places as 'Zagorin apples' under fake labels. Since 2001 when Pouri and Macrirachi, the two adjacent villages of Zagora, officially were incorporated into the Zagora municipality, this kind of illicit market competition has sharpened. Particularly, the offenders mislead the trade inspectors by using invoices for buying smaller quantities from farmers of Pouri or Macrirachi, so typically they have the right to use the 'Zagora' name of origin. The stimulus is that end consumers cannot distinguish the Zagora origin from the 'Zagorin' brand.

Both the aforementioned problems made the ZAC's leading market position vulnerable, so some deficiencies in production and governance have been revealed. First, in order for the ZAC to reach competitive production costs and increase further quality, its production system needs re-structuring. Second, some intra-cooperative inflexibility in decision making and application came into sight, which makes the need for changes in governance vital.

The ZAC's leadership has spearheaded production and marketing initiatives to deal with these. Since 2004, the ZAC has participated in a pilot program of integrated low input agriculture, organised by the Greek General Secretariat for Research and Technology. This program is a system of agricultural techniques promoting sustainable development based on European practices. Initially, a minority of ZAC members responded positively. Since December 2005, an agreement between the ZAC and the leading multiple retailer offers a better price to farmers following integrated farming and promotes more effectively these products to final consumers. This resulted in 70% of members' conversion to integrated farming in 2006. Regarding production re-structuring, the ZAC's leadership, in collaboration with the Magnesia Prefecture, organised an educational trip to Bolzano, Italy. There, despite the steep slopes and heavy winters, modern cultivating and irrigating systems are applied successfully, giving Italian brands a cost advantage over 'Zagorin' apples. A video presentation from this trip worked as a 'catalyst' for the ZAC leadership to communicate more effectively the feasibility and significance of structural changes in cultivating and irrigating systems. This resulted in a few ZAC members' participation in a pilot production re-structuring program under the guidance of Thessaly University.

However, the governance deficiencies remain unresolved. A bulk of the ZAC membership (450-500 of 750 members) remains alienated following the internal crises of 1990s. The intense abstention, especially of the youngest farmers, manifests their decreasing interest, commitment, trust and confidence in their own decision-making capacity. Besides, the ZAC's internal communication mechanisms i.e. general meetings and personal discussions with the commanders are poor. Despite commercial success, both these governance deficiencies risk the ZAC's future development.

Since 2004, the ZAC general manager has shifted his networking interest from the European to the domestic apple scene, aiming to strengthen further the ZAC's position in the domestic sector and market. Particularly, in 2004, he became involved in an initiative of the Management Agency of the Thessalia periphery, promoting the

horizontal collaboration between the ZAC and two other Greek apple cooperatives, one at Agia area, in Thessalia and one in northern Greece. This initiative failed due to differences in market-orientation attitudes and governance of the cooperatives. In 2005, the ZAC general manager together with private actors, established the 'Association of Greek Packers of Fresh Fruits and Vegetables' (SSEFF), which successfully exerts influence to the state and promotes the sector. Also, since 2004, the ZAC has participated in the biggest European trade fair, FRUIT LOGISTICA in Berlin, based on support of the Hellenic Foreign Trade Board.

7.3 Analysis of Factors Influencing Historical Evolution

7.3.1 Introduction

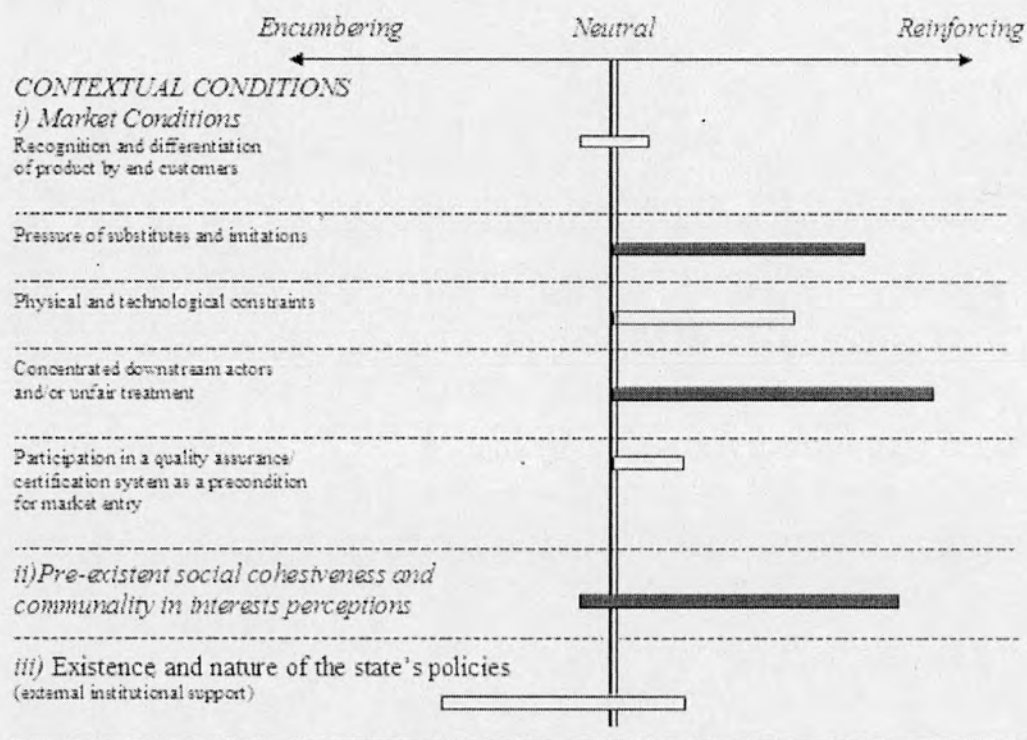
This section considers the key factors influencing the Zagora network evolution over time, drawing from the factors identified from literature in Chapter 3, namely: market conditions, social cohesiveness and external institutional support. For Zagora, analysis indicates many of these seem to play a role. Figure 7.1 summarises the impact of all factors on the Zagora network evolution diagrammatically; most important impacts are depicted with black bars, less important with white bars⁶¹. As Figure 7.1 indicates, three factors were found to be particularly important to the Zagora network evolution: (i) the unfair treatment of farmers by the downstream actors, (ii) the pressure of substitutes and (iii) social cohesiveness. The next sections describe and explain the impacts of these factors.

7.3.2 Unfair Treatment of Farmers by Downstream Actors

According to the literature, if downstream actors in a supply chain are relatively concentrated and treat fragmented suppliers unfairly, then the development of

⁶¹ For an analysis of the less important contextual factors for the Zagora case study, see the comment for the footnote 61 from Chapter 7 in the Appendix I

Figure 7.1: Contextual factors Reinforcing and Encumbering the Collective Action or Networking Activity in Zagora Network



'countervailing power' networks from the suppliers is stimulated (Grandori and Soda, 1995). Additionally, the existence of imitations, which misuse the origin or brand name, may constitute a strong incentive for local SMEs to join resources in order to 'take ownership' of the brand (Barjolle *et al.*, 1999). For Zagora findings are consistent with both theoretical propositions. The first proposition is evaluated from evidence collected before 1992. Then, the most powerful link in the supply chain of fresh fruits and vegetables was the wholesalers, frequently exploiting farmers and small retailers. The Zagora farmers could not tolerate it, so they established the cooperative in 1916 and later they re-vitalised it in 1964 and 1980 for the same reason. Moreover, the wholesalers reacted offensively by offering enticing prices, in periods when the ZAC malfunctioned in order to sabotage ZAC membership, as happened in 1974. The second proposition is evaluated from evidence collected after 1992. Then, the wholesalers were skipped by the

powerful multiples. Also, open-merchants and local small-retail shops dramatically lost market share. As a result, some wholesalers or small retailers reacted by misusing the Zagora origin and the 'Zagorin' brand. The ZAC has considerable difficulties in facing this economic crime, especially after 2001 when Pouri and Macrirachi, the two adjusted villages were officially incorporated into the Zagora municipality, as described in section 7.2.5.

A proposed solution currently, is to change the ZAC's memorandum in order to permit the membership of farmers of the aforementioned adjusted villages. The second leader proposed it in early 1980s without success, aiming to increase the scale economies. However, recently the ZAC members are forced to reconsider this possibility, and put aside any prejudices against other villages derived from lack of existing social bonds. In other words, findings support the second proposition, since a strong incentive is created for the ZAC members to join resources with apple farmers of Pouri and Macrirachi villages in order to 'preserve the ownership' of 'Zagorin' brand. In conclusion, the unfair treatment of Zagora farmers by downstream actors substantially influenced the historical evolution of the ZAC.

7.3.3 Pressure of Brand Substitutes

Following the literature, the pressure of well-differentiated brand substitutes might increase the sustainability of existing collective action of SMEs, because they realise the 'strength of unity' (Barjolle and Sylvander, 1999; Sylvander *et al.*, 2000). In the Zagora case, supportive evidence was found. Since 1992, free-market policies resulted in changes in market structure. First, the multiple retailers became the most powerful link. Second, both the wholesalers and multiple retailers found a cheap substitute of 'Zagorin' apples, the Italian brands. Gradually, the domestic market has surplus in apples since both imports and domestic production increased. Consequently, the 'Zagorin' brand seems to reach the ceiling of the affordable price for domestic consumers, since the Italians brands have equivalent quality but lower price than 'Zagorin' brand. Such market pressure, first, strengthened ZAC members' existing social bonds, by convincing

them *'in order to survive, we must stay united'*. Second, it made the ZAC commanders realise that production re-structuring is vital for cost reduction. Furthermore, the research added a further refinement, specifically identifying the importance of the pressure of imitations misusing the Zagora origin and Zagorin brand name. It was found to force the ZAC members to reconsider their decision of denying the adjacent villages farmers the right to be cooperative members, and overcome their prejudices due to the lack of existing social bonds. The scope for this expansion was to *'secure the brand ownership'* by restricting access of the domestic imitators to supplies of Zagorin apples from the adjacent villages' farmers.

The Zagora case illustrates how the pressure of well-differentiated substitutes can reinforce any existing network bonds, while the pressure of imitations can expand these bonds by forcing actors to overcome prejudices towards other potential members due to the lack of existing social bonds.

7.3.4 Social Cohesiveness amongst Producers

If socio-cultural bonds between network members pre-exist and are expressed through communality in interests and perceptions, then the likelihood of strong, durable network ties is high (Scott, 1988; Baker, 1995). For Zagora, strong social cohesiveness has always been evident among different farmer sub-groups. Before the Greek civil war (1945-1949), the distinction of these sub-groups was based on wealth (wealthy vs. poor farmers), while afterwards, it was on political beliefs.

Regarding the impact of social cohesiveness on network evolution, before the civil war, the poor farmers recognised the cooperative and generally collective action as the only means to face difficulties e.g. unfair treatment of wholesalers, economic crises of World Wars.

"I told you Zagora was the only village which captured early the meaning of the cooperative idea...Zagora farmers had and still have a vision for their village. They see that through the collaboration they could cope the difficult situations.

There were leaders capable of motivating the mass. The people obeyed, saw what was the right, followed, believed in the collective action." [Farmer- ZAC member]

However, after the political disunion of the Greek civil war, social cohesiveness narrowed to smaller farmer groups and became expressed through communality in political beliefs. Collective action was considered as a typical communist behaviour. Therefore, the disposition to collective action was found in descending order of strength in communists, socialists and right-wing farmers. This is reflected in the order these groups decided to join the ZAC: first communists (1964-1980), then socialists (1982-1989) and last right-wing Zagora farmers (1992-1993). However, the incorporation of each additional group weakened the intra-coop social cohesiveness, since cliques emerged. The cliques have preserved the link between political beliefs and stronger social bonds. So, the ZAC became vulnerable to crises.

This contrasts markedly with the fact the ZAC avoided the market failure in spite of the political intervention in farmer cooperatives through cliques, as was the case for the overwhelming majority of Greek farmer cooperatives. The interviewees explained this paradox by relating it to the social cohesiveness. Particularly, after the numerous incidences that Zagora farmers survived thanks to the cooperative, it is now recorded in the collective memory of ZAC members that their personal economic interest is tightly linked to the ZAC's profitability. Therefore, they realised what serves the ZAC's profitability best is more important than their political differences. Consequently, although cliques' cohesiveness is based on political beliefs, they will not remain in power unless they justify their contribution to the ZAC's economic growth. This is illustrated in the following quotation:

"Within the ZAC, political parties have less influence, because our "pocket" is common...all together we fight for the "pocket" ... (what happens) mainly at the Zagora, although I belong in the far-left wingers, both the right and centre wingers voted for me... a person is what (Zagora farmers) are looking for here, a person who chases the problems, they follow their "pocket", nothing else Even if they had voted for you or you belong in the same party, if you do not make a proper job, they will keenly criticise you in the general meeting, they

forgive nothing, they themselves will "eat" you." [Zagora Administrator –the second leader (1980)]

The Zagora case illustrates that social cohesiveness is an indispensable feature of the evolution of the network.

7.4 Structure of the Current Zagora Network

Having discussed how the contextual factors stimulated the development of collective action and networking activity in the Zagora case, the Chapter continues by describing the present day network, in terms of structure and performance. Then, features of the network are analysed, drawing from literature presented in Chapter 3. Finally, the impact of these features on performance is discussed. As the Zagora case was selected on the basis of apparently strong performance, it is expected to validate good performance and find strong horizontal cooperation.

7.4.1 Zagora Network Structure

The Zagora network structure is presented in Figures 7.2 and 7.3. Figure 7.2 illustrates the five-stage supply chain of internal actors, where the ZAC is the focal point. Figure 7.3 depicts the network relationships with actors external to the supply chain.

As Figure 7.2 shows, the first stage of the network consists of input suppliers to farmers (i.e. suppliers of fertilisers and pest control equipment) or standardisation/packaging units (i.e. suppliers of standardising machinery or packaging materials). The next stage includes 750 Zagora apple farmers supplying the ZAC, divided into 650 farmers following conventional apple farming and 100 following integrated farming. 70% of output is certified as integrated low input product. Among the ZAC members, cliques exist. Approximately 10 Zagora farmers used to be ZAC members of the cooperative, but deregistered and established a private apple standardisation unit at Zagora village. At the third stage, standardisation units are found. The ZAC grades and stores apples in its own facilities: the standardisation, packaging and storage plant. 100% of its apple output

is labelled with 'Zagorin' brand. The final two stages present the apple distribution to retail outlets. 55% of output is distributed by domestic wholesalers and 10% by the 4 outlets of the ZAC's in the wholesaler markets of fresh fruits/vegetables to small local retailers and open-market merchants. 35% of output distributed directly to multiple retailer chains. In the past, the ZAC occasionally exported to Portugal, Israel, Holland and Albania via import agents.

As Figure 7.3 shows, the main external actors to the Zagorin supply chain are: other cooperatives in Greece/Europe; domestic private or public agricultural/developmental agencies; the 'Fruit News' magazine; the Association of Greek packers for fresh fruits/vegetables; as well as actors of European apple trade and production networks.

Overall, the ZAC compared to other domestic farmer cooperatives is a unique and remarkable case, since it has a large number of members and strong links with external actors. Especially, the ZAC is focused on European networks, from whom it picked up cutting edge techniques and methods and employ them in its own networks.

7.5 Performance of Zagora Network

7.5.1 Introduction

The Zagora case was selected on the basis of apparently strong performance. However, this judgment was based only on an external evaluation. So, this section aims to undertake a more detailed internal assessment, seeking to validate whether the external appraisal is true or not.

Human and Provan (1997) proved empirically that SME networks have both transactional and transformational outcomes. The former refers to the improvement in financial performance, organisation credibility and access to resources. Transformational

Figure 7.2: Internal Actors of the Supply Chain of Zagorin Apples

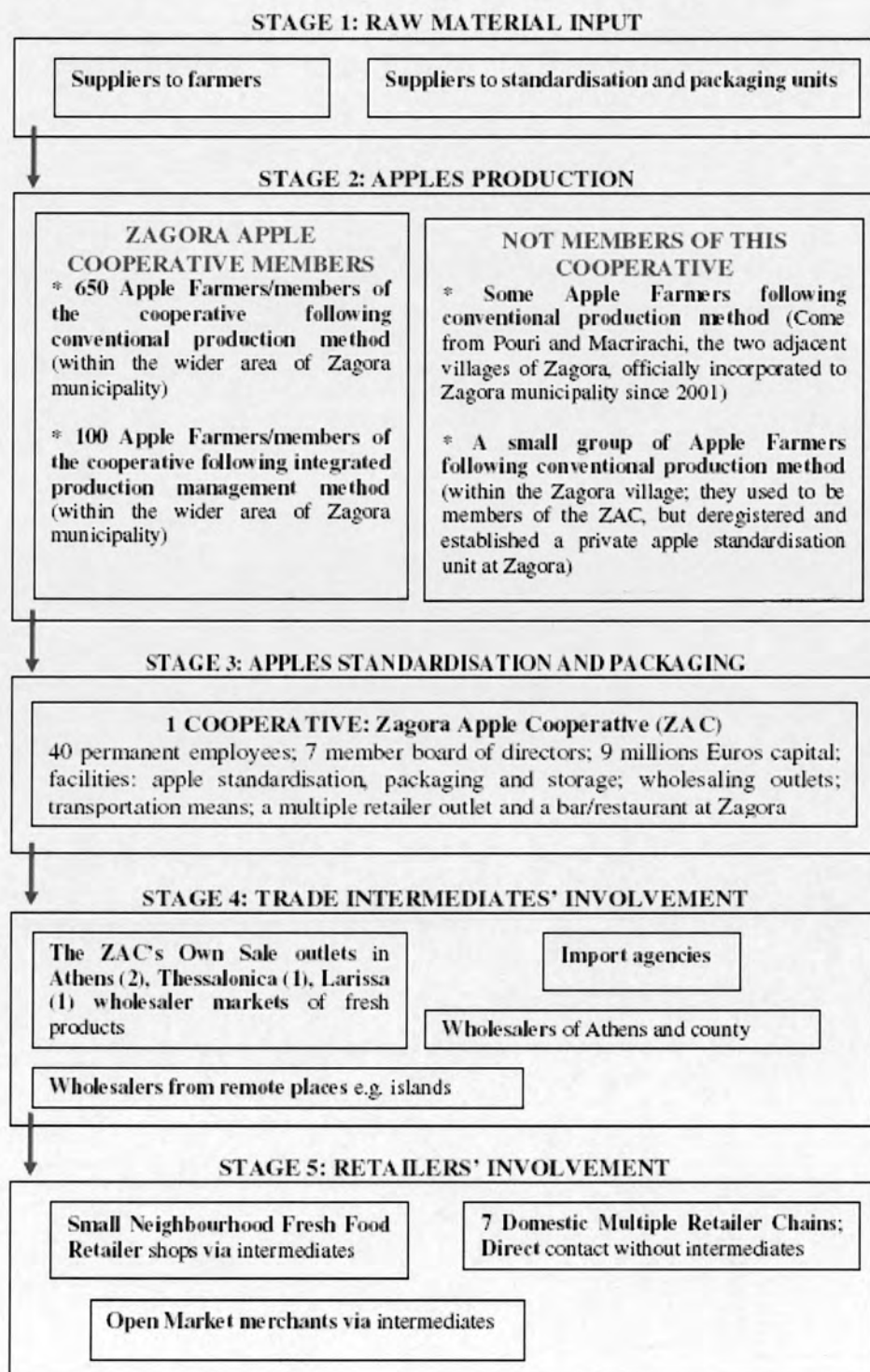


Figure 7.3: Networks of the ZAC with External Actors of the Supply Chain of Zagorin Apples

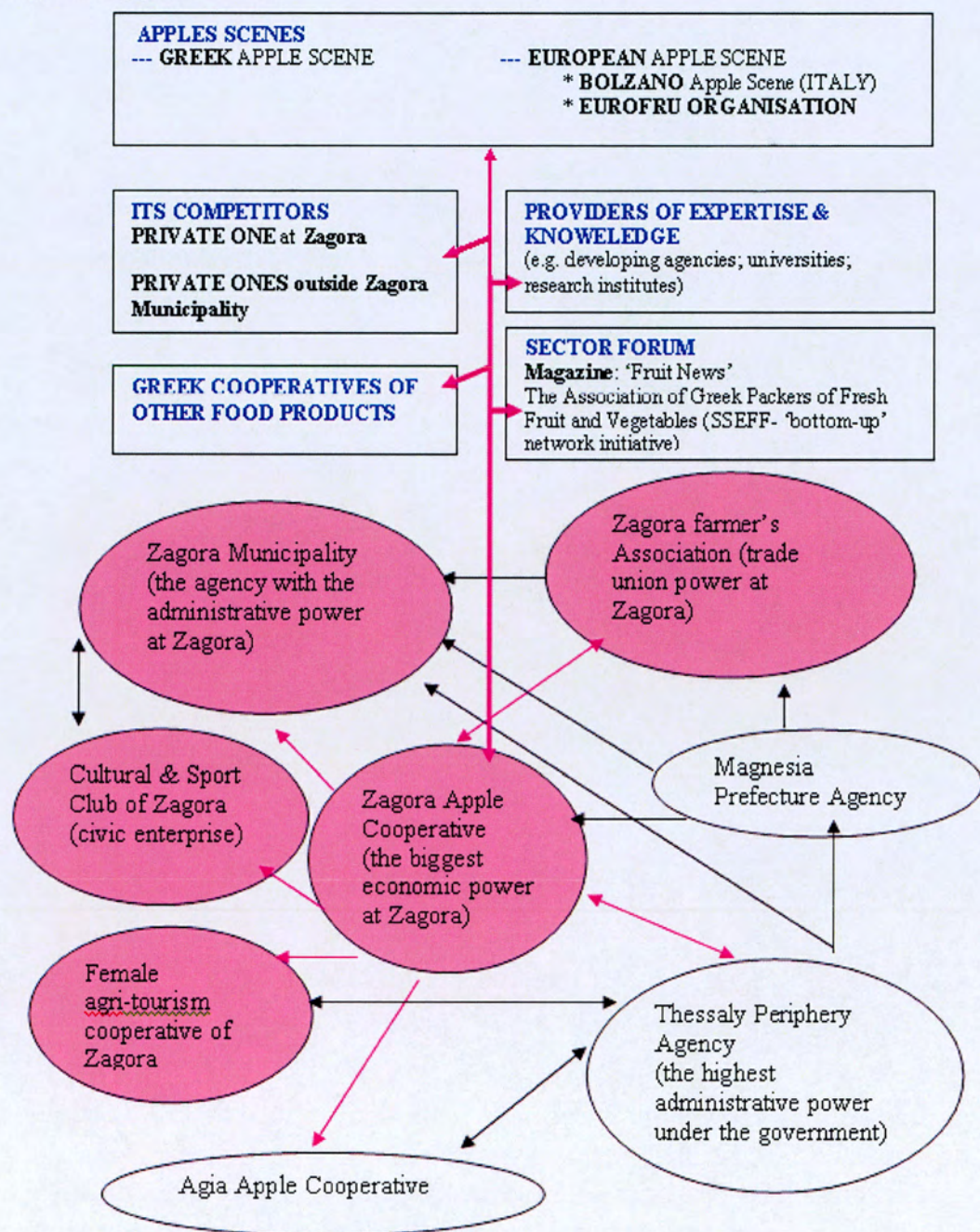
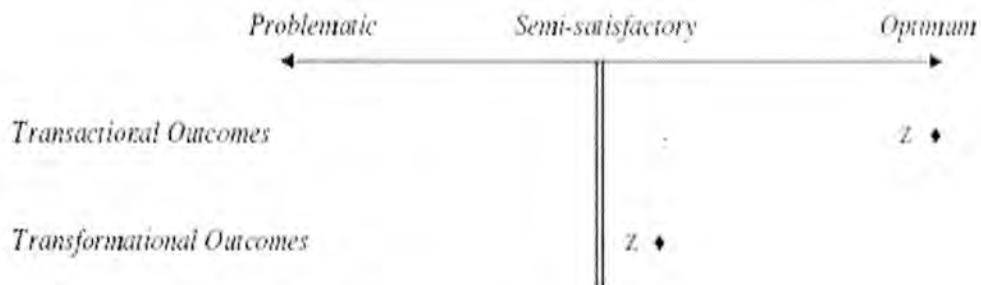


Figure 7.4: Transactional and Transformational Performance Outcomes of the Zagorin Network



outcomes refer to a change of members' attitude towards a more cooperative behaviour, because they appreciate the network benefits and have a greater input. In the ZAC, both types of outcomes were expected to be found, since the ZAC was selected as a classic 'successful performance story'. Figure 7.4 summarises the performance outcomes found in practice and the following sections give the details.

7.5.2 Transactional Outcomes of the Zagora Network

All ZAC members enjoy secure access to standardisation and marketing facilities and secure premium payment. Reliable information and agricultural guidance is offered on demand. Since the ZAC has achieved stable scale economies, its viability and credibility towards large suppliers and customers, as well as public agencies e.g. universities, public agricultural or administrative agencies, have been considerably increased.

"if the ZAC did not exist, quality of apples in Greece would not be so high... The ZAC is the most organised cooperative in Greece today, that's why it manages to control the quality... the cooperative has the same behaviour to multiple retailers and wholesalers, it collaborates in the proper way... because Zagorin apples is a premium brand and expensive, not everyone "touches" these apples. Besides, since the ZAC has long-term relationships with its customers, it knows them very well ...indeed it has the best customers in the whole Greece. The ZAC leads the market, is the only one who has a fixed price, according to which all others set lower prices. So, if the ZAC starts with a relatively low price, the others have problems, because more customers turn to Zagorin" [Wholesaler]

Besides, the contribution of the ZAC to the prosperity of Zagora village is fundamental. It keeps young people in the village and farming, advances the quality of local services e.g. multiple retailer store or tourism facilities. It controls the local prices for inputs, products or services that the ZAC offers. As indicated in Figure 7.3, it occasionally sponsors local associations women agri-tourism cooperative; farmer association; sport-cultural club. It made the name of Zagora well-known.

Overall, transactional outcomes of the ZAC are optimum, reflecting its good economic performance as was expected.

7.5.3 Transformational Outcomes of the Zagora Apple Cooperative

The ZAC members jointly produce and market their product; bid large projects; discover funding opportunities and obtain infrastructure. They jointly own a premium brand 'Zagorin', which is highly recognised and differentiated by both the downstream actors and final consumers in the domestic market, in terms of quality, brand, origin and marketing promotions. However, since only 250 of the 750 members are involved in the decision-making process, especially the elder ones, very few members increase their tacit knowledge of the actual market conditions and the cooperative management and improve their MO attitude. This phenomenon jeopardises the sustainability of the ZAC, since it decreases the number of members who are satisfactorily qualified for managing the cooperative. Overall, the transformational outcomes, in terms of the way the ZAC members perceive and actively participate in the ZAC decision-making process, are significantly less than the optimum.

"The external environment to the ZAC, the suppliers, the customers, I would say we control it enough well. The internal one is difficult, more complex and complicated. We have a large number of members, 750, with conflicting interests sometimes. The ZAC is the economic pillar of region, because it circulates the money, offers jobs. But sometimes this causes conflicts, and political or personal interests may be involved." [The ZAC general manager]

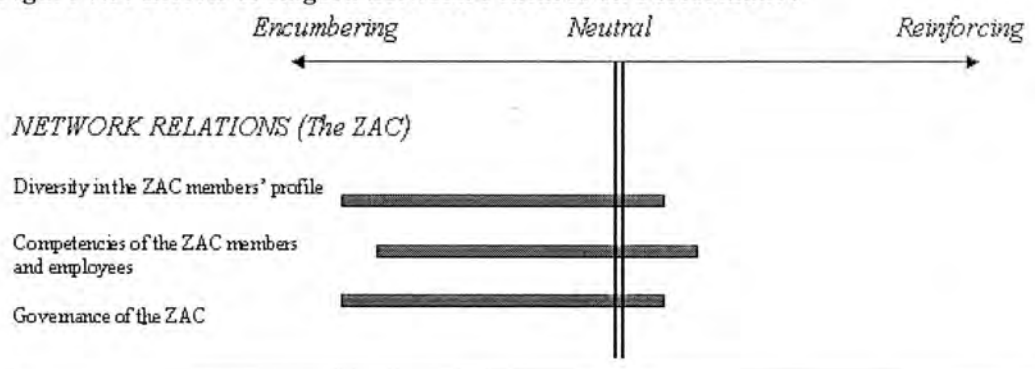
In conclusion, since the ZAC was selected as a classic ‘successful performance story’, both transactional and transformational outcomes were expected to be optimum. It was surprising that only the former met these expectations. The next section attempts to explain how certain features of the ZAC were conducive to favourable transactional or transformational favourable outcomes of observed performance.

7.6 Features of the Zagora Network

7.6.1 Introduction

This section considers the key features of the Zagora network that impact on its performance, drawing from Chapter 3. Briefly, these are: (i) the profile and (ii) the competencies of the ZAC’s members, as well as (iii) the network governance. Figure 7.5 shows the effect of these network features has been to reinforce or strengthen the network performance. The next sections explain the three features of the ZAC.

Figure 7.5: Effects of Zagora network Features on Performance



7.6.2 Zagora Network Member Profile

The first feature of the network that impacts on performance is the profile of the network’s members. According to Milliken and Martins (1996), two types of network members’ profile exist: physical and attitudinal. The former refers to some ‘observed’

attributes such as age, land size, having a second job, whereas the latter denotes 'less visible or underlying' attributes, for example perspective, goals, reluctance to change. The theoretical proposition states that diversity in either physical or attitudinal profile impedes performance outcomes of a network (Milliken and Martins, 1996). Since in the Zagora network performance only transactional outcomes were found optimum, some heterogeneity in members profile was expected.

In fact, Zagora case exhibited a basic level of homogeneity in the attitudinal members' profile, since all members believed the ZAC as an entity is beneficial and expressed a willingness to remain members obeying its rules. This basic level of homogeneity explains why the ZAC reaches satisfactory scale economies and high product/services quality, which results in good transactional outcomes.

However, the Zagora case exhibited a notable heterogeneity not only in the physical profile of farmers (i.e. age, land size and having a second job), but also the attitudinal profile, beyond the basic attitudinal features described above. Particularly, the ZAC members appeared to differ in professionalism, political beliefs and time-perspective of goals. So, overall the Zagora member profile was considered as a case of high heterogeneity, which resulted in strong diversity in members' commitment and determination to enhance ZAC's sustainability. This diversity was reflected in the low number of participants in the decision-making process and in the questionable motives of conflicting cliques.

Moreover, the heterogeneity in ZAC members' profile decreased intra-cooperative social-integration and increased coordination costs. This impact is intensified due to the large number of ZAC members. So, this heterogeneity helps to explain why the perception and behaviour transformation of members is not optimum.

7.6.2 Zagora Network Competencies

The second feature of a network that impacts on performance is the members' competencies. The theoretical preposition is that network members should have a range of skills at a sufficient level according to their responsibilities, in order for a SME network to perform well (Provan and Kenis, 2008). Three types of skills are mainly required: production expertise, marketing/entrepreneurial skills and collective-management capabilities. So, since in the ZAC's performance, only transactional outcomes were found optimum, some of the aforementioned skills were expected to exist at an insufficient level.

First, regarding the production skills, it was found that both ZAC farmers and agriculturists have good knowledge of traditional cultivating systems. Besides, the cooperative has satisfactory standardisation competencies. However, ZAC farmers ignore modern cultivating and irrigating systems, by which they could reduce the cost. Moreover, their attitude to overestimate their expertise and ignoring agriculturists' instructions hampers production re-structuring.

Second, regarding the marketing/entrepreneurial skills, the current general manager and the second leader were found to have considerable empirical competencies. For instance, thanks to his natural marketing/entrepreneurial instinct, the general manager has detected successfully the European market tendencies before these become observed in the domestic market⁶². However, these skills are only based on experience and concentrated within the aforementioned two individuals. For example, the second leader had a wide network horizon, since he had interacted with the downstream actors and travelled in Bolzano area, whereas the great majority of ZAC members cannot fully capture the intangible benefits of 'weak ties'.

⁶² The ZAC manager proposed affixing the Zagorin label on each apple; advertisement on TV; P.D.O. certification and integrated farming. Besides, during the 90 years of its presence, the ZAC also first adopted and applied, compared to its competitors: wholesaling; standardisation; emphasis on quality of the product and relationship with downstream actors.

Third, regarding the collective-managerial capabilities, the interviewees indicated that only the two leaders (presidents in 1964 and 1980) had considerable skills, such as detecting possible pitfalls; thinking critically and in abstract terms; communicating and persuading; synthesising; coordinating and tackling indiscipline. These two leaders convinced the critical mass for their honest intentions, by committing themselves to carry the collective goal into effect and by promoting intra-cooperative transparency, dialogue and synergy.

"(The president and another person leading in 1963) were more active persons, had progressive ideas about Zagora village. They had a bigger co-operative idea than us, the youngest, so they guided us ... they were unschooled like us...but they convinced us that this exploitation cannot be tolerated any more...we ought to revitalise the cooperative..." [Zagora Administrator –the second leader (1980)]

"All elected in the board of directors should offer unsalaried services because the position of councillor is honorary, all ought to understand this! Now they say me that those times when one worked for free had passed. For me this is an error ... For example, when I was first elected president, I gathered the cooperative employees and said: "I will work for free, as hard I will work, I want you who get paid to work, in order the cooperative to succeed". And we achieved this, we believe in it." [Zagora Administrator –the second leader (1980)]

"As a president, I found very helpful discussions with small groups, 20-30 people here at the office, before going to the general meeting where the decisions are taken. The cooperative council informed them about the situation, the proposals and discussed, so it was aware of their reaction. From everyone you can gain something, to add it in your mind. Because the general meetings are too crowded, so it is better to inform previously the members. Besides, they say to you some useful opinions, so you can correct possible mistakes in your proposal before announcing it in the general meeting. Many opinion leads to the right decision." [Zagora Administrator –the second leader (1980)]

However, except for the two leaders, the rest of presidents and the general manager appeared to have insufficient collective-managerial skills. In particular, they found it hard to understand how some cooperative principles (e.g. transparency; equity; justifiability; democracy) can be preserved and effectively communicated by establishing the appropriate governance mechanisms. So, presidents with low leadership

abilities were related with phenomena of lack of meritocracy, impartiality and transparency or simply of inability to act/have a strategy.

The existing competencies of production; marketing/entrepreneurship and collective management were found sufficient to optimise the ZAC's transactional outcomes. By participating in EUROFRU, the ZAC manager captured most European market tendencies, before observed in the domestic market. This antecedence gave him time to convince ZAC members about the pioneering ideas. So, by the time of their implementation, the ZAC remained ahead from the rest Greek agrifood businesses, which did not benefit from the knowledge diffusion in European networks. This antecedence was combined with the professionalism and scale economies achieved thanks to the existing competencies of production and collective management. As a result, the ZAC has the leading market position, with considerable price difference from the second competitor.

Inversely, the fact that the great majority of ZAC members have a shortage of competencies of modern production; marketing/entrepreneurship and collective management explains why transformational outcomes are not optimum. The lack of modern production competencies has recently threatened the ZAC's leading position, by creating a production cost disadvantage and barriers to further product quality improvement. The shortage of marketing/entrepreneurial competencies and collective management skills of ZAC members caused two problems. On one hand, the general manager faces great difficulties to impact his knowledge to each board elected every four years. On the other hand, having a 'plasmatic' picture about ZAC's competencies and challenges, the members exert pressure to maximise short-term and tangible benefits (e.g. price, less risk), although such a policy could be detrimental from a long-term perspective. After a period of adjustment, each board becomes less receptive to novel ideas, since they overestimate their expertise to assess accurately these ideas' utility and ignore the continual change in markets. In brief, the ZAC suffers from decision-making inflexibility, especially regarding structural changes, attitude inertia and conflicting

perspectives of cliques. As the market competition pressure becomes sharper, the shortage of ZAC members' competencies appears more obvious.

"The prosperity and the rise of the ZAC, the reputation of Zagorin label and the recognition of value of product have also created a plasmatic picture to the members and in turn requirements from the enterprise that certain times exceed its possibilities. Considering as datum that they produce a very good and famous product, even the careless producers require from the organisation to give them a price which certain times can except the market price range. Ok, as good as you are a price ceiling exists, you cannot ask whatever you want from the market... Besides the Cooperative tends to become an establishment, something conquered for its members, therefore we can potentially strike more easily and often" [The ZAC general manager]

"for the integrated farming...the members reaction was: "What we need these things now, you make us quill-drivers". The discipline of producer is very difficult when he does not understand the directness of result, "How much I am going to gain from this? Will you give me 20 cents more?" But you cannot guarantee this to him." [The ZAC general manager]

"No complains from the ZAC, but the problem is the change of the board of directors every four years, you start each time from the beginning, until we know each other and they calm down...because you deal with farmers lacking trade knowledge. It is a waste of time until they understand how markets work, you ought to explain obvious things...if they had not the specific general manager who are the link between the members and customers and knows well the job, the ZAC would have serious problems." [Wholesaler]

Overall, the Zagora network exhibited sufficient competencies to achieve only transactional outcomes, not transformational ones. Furthermore, the evidence highlights the need to distinguish between formal qualifications and competencies based only on experience. In fact, the solely empirical skills of marketing and collective management appeared to lead to suboptimum transformational outcomes. Besides, the concentration of competencies within few individuals can play a negative role in the marketing performance.

7.6.3 Zagora Network Governance

The third feature of a network that impacts on performance is the governance.

This is comprised of five aspects: (i) power distribution; (ii) accountability/formality; (iii) mechanisms for knowledge/information diffusion; (iv) mechanisms for resolving conflicts; and (v) mechanisms for monitoring/evaluating/planning.

According to Grandori and Soda (1995), Provan and Kenis (2008), if the power is highly distributed within a network; and if there is sufficient accountability/formality and mechanisms for diffusing the information/knowledge; resolving conflicts and monitoring/evaluating/planning, then the likelihood for good network performance increases. Given the ZAC's performance, where only transactional outcomes were found optimum, some of the aforementioned aspects of governance were expected to exist at an insufficient level.

Regarding power distribution, all members officially have equal votes. Besides, impartiality in discipline penalty for members offending against their obligations exists (i.e. 10-year membership and delivering the whole quantity produced). In terms of accountability, the ZAC has established a quality-rewarding payment system for farmers to stimulate quality improvement. Regarding formality, the ZAC has its memorandum of association, which determines the relationships with its members, decision making processes and its mission statement. Regarding the mechanism of transferring information and building trust, the second leader (1980-1987) organised very effective mini meetings with sub-groups before each general meeting. In this way, he transferred valid information and collected feedback or new ideas, so in the general meeting he could submit an adapted proposal integrating the preferences of the most ZAC members. Besides, he was aware of conflicting interests and addressed them in advance through mutual explanation and understanding. Finally, regarding monitoring/evaluating/planning mechanisms, the ZAC monitors and evaluates all the standardisation processes and outcomes, thanks to ISO and HACCP certifications. As a result, the ZAC has a clear identity recognised by both members and external actors; it achieves scale economies; it secures high product/services quality and maintains its

functions even under hostile or unexpected circumstances. The aforementioned governance features explain the ZAC's optimum transactional outcomes.

Notwithstanding, there are some findings regarding network power that are inconsistent to the ZAC's optimum transactional performance. First, the power appears very concentrated within cliques, which limit members' access to accurate information and opportunities to gain expertise in order to secure their exclusive privilege in power sharing. Such access is permitted only to members adopting an existing clique's perspective; otherwise their voice is weakened or sometimes even derided. For example, some elder members discourage the younger to express independently their 'fresh' ideas, by keeping an attitude *'leave us to decide because we have the experience'*. An interviewee described it as 'the compliant voters today become the board of directors tomorrow'. Clearly, these findings indicate a non democratic leadership, which limits the active participation of the great majority of ZAC members, and results in non-optimum transformational outcomes.

Second, there is no independent and objective mechanism to diffuse accurate and intimate information to ZAC members, especially those not belonging in a clique. Officially, the general meeting is the only existing mechanism for transferring valid information for decision making, as well as for resolving conflicts and assessing the commander's contribution. However, in the general meetings the commanders or cliques' leaders explain very ineffectively: what decisions were taken, under what speculation and criteria; within what context (i.e. market situation; regulations or trends), what the pros and cons of alternative options were. This happens because those providing the information needed for assessing a decision option, coincide with those being assessed or those fighting for gaining the impressions. There is no newsletter or official broker for transferring valid information/ knowledge. In consequence, there is disinformation, which cliques seem to manipulate for leading the remaining members to certain conclusions. Some interviewees expressed it as *'they need us to simply ratify the*

decisions they made'. In brief, the disinformation hampers the optimum transformation in ZAC members' perceptions/ behaviours.

"There is not an enacted mechanism to transfer official information to all members, especially those not coming to the general meetings...official briefing, that could not be twisted in the cafe. This has still not been conquered, we have a weakness here which creates horrible problems at certain times...a grotesque distortion of the facts" [The ZAC General Manager]

"There is great mistrust among members...corruption suspicions." [Wholesaler]

Third, the disinformation hampers accountability and trust building, since the contribution of each member or commander is partially recognised according to their clique's power. In fact, the clique leaders (around 30 people) seem to fight for improving their own human capital rather than promoting objectivity and flexibility in the ZAC's decision making process. So, they hold firmly to their opinion, and tend to disclaim responsibility for wrong decisions or observed omissions. For these, the ZAC general manager is usually blamed, while his contribution is not openly recognised, since most ZAC members believe 'he is just an employee, the president does the difference'. As a result, accountability is highly diffused for what happens, what is achieved and by whom. Besides, this attitude of clique's leaders triggers intra-cooperative conflicts, which polarise the audience in the general meetings instead of unifying it. Therefore, trust shocks for ZAC members are unavoidable. Since there is no constructive resolution of conflicts as a paradigmatic example, they reiterate. In turn, this endless influence control game encourages the intense abstention and disengagement of two thirds of ZAC members, especially the youngest ones. Clearly, these findings indicate how disinformation hampers accountability and trust building, so non-optimum transformational outcomes occur.

Finally, the ZAC has not established mechanisms for identifying changes in members' interests and perceptions; and for evaluating its governance efficiency and members/employees' sufficient level of competencies according to their responsibility. Consequently, the ZAC fails to learn from everyone's experience, and incorporate best practices. Due to the lack of mechanisms for monitoring, evaluating and planning, the

ZAC commanders delayed to identify the existing deficiencies in governance and members' competencies. Moreover, this delay aggravated the alienation of two thirds of ZAC members, so now the ZAC commanders struggle to regain their confidence and stimulate structural changes. Hence, it is apparent why transformational outcomes do not reach the optimum level.

Overall, the existing ZAC's governance structure was found effective in securing scale economies and quality improvement, mainly because of the quality-rewarding payment system and obligations for 10-year membership and delivering the whole quantity produced. So, compared to other domestic farmer cooperatives lacking such obligations and a rewarding payment system, the ZAC's governance structure is proved successful to deliver optimum transactional outcomes. In contrast, this structure was proved inefficient to optimise and distribute the intangible benefits of perception/behavioural transformation of active participation to the great majority of ZAC members. In fact, these benefits (e.g. gaining expertise) are concentrated and sometimes even violated within cliques of elder farmer-members. This impact of governance structure in terms of transformational outcomes has further consequences. The existing diversity in members profile and shortage in members' competencies is deteriorating rapidly, since there is dramatic decrease in interest, trust, commitment, and confidence on their own decision-making capacity of two thirds of ZAC members. Furthermore, issues of sustainability and flexibility of ZAC arise. In other words, even the optimum transactional outcomes are threatened, as market competition increases.

7.7 Summary

This Chapter has reported the findings regarding the historical evolution of the Zagora network and the factors influencing it, as well as the current network structure, performance and analysis of the ZAC's features.

Having set out the main question to be investigated, namely, the description and analysis of the evolution of the Zagora network, the Chapter demonstrated that it is a long-standing and high performance network, where the ZAC has worked effectively to counteract downstream actors' power. Social cohesiveness, combined with marketing/entrepreneurial skills of leaders led to this result. However, internal tensions indicate weaknesses in the ZAC's governance structure and commanders' management skills. Consequently, ZAC members' involvement appears low, jeopardising the cooperative's future development. This explains the optimum transactional outcomes and suboptimal transformational outcomes exhibited by the Zagora network.

The next Chapter goes on to present the results of the fourth and final case study: that of Agia apples. This case was selected on the basis of representing an "unprocessed product" and apparently weak market performance.

Chapter 8: Agia Apples –Case Description and Analysis

8.1 Introduction

Having discussed the findings of the Zagora case study, attention now turns towards the last case, Agia apples. This case study refers to an SME cluster having its production base in the region of Agia, in the Larissa prefecture in central Greece. Apples represent the most significant crop in this area with more than ten private standardising/packing enterprises in operation. The annual output of apples in the Agia region is estimated around 50-60,000kg.

The inter-firm relations for this case revolve around the three largest private packing enterprises (Poulis Ltd, Xatzisalatas Ltd, Xatzidakis Ltd), and one cooperative (the Agia Apple Cooperative; AAC). The cluster is characterised by continuous entry and exit of packing enterprises. Upstream, the network consists of around 450 apple farmers, who frequently switch between the four standardising/packing enterprises. Overall, evidence of the existence of 'typical' domestic, problematic relationships not only among farmers, but also between the farmers and downstream actors, was found within the interviewees' accounts and perceptions.

The three private firms distribute almost the total of their annual apple output as branded apples, each brand corresponding to the name of the packing firm. The cooperative enterprise only distributes unbranded apples.

Following the two criteria for case-study selection, this case was selected on the basis of representing an unprocessed product and apparently weak market performance. Therefore, relatively weak network relations would be found and also possibly quite hostile contextual conditions. The results of analysis of the Agia case are reported as follows. First, the network historical evolution is described in four phases, followed by

analysis of influencing contextual factors. Next, description of the current Agia network is given, involving descriptions of its structure and performance. The Chapter then analyses the key network features impacting on performance. The Chapter finishes by summarising the findings.

8.2 Historical Evolution

8.2.1 'Agia apple cooperative suffers from internal problems – Wholesalers exploit farmers' (1965-1980)

A long history of farmers' exploitation by wholesalers exists in this case. In particular, wholesalers had no constant presence in the Agia region, but continually entered and exited, usually without paying farmers off fairly. The farmers could not bring a suit against them, since the transactions were based on verbal agreements, and no proof element was available. In 1965, the Agia apple cooperative (AAC) was established to provide Agia farmers direct access to small retailers through its own sale outlet in the Athenian wholesaler fresh market, skipping the wholesalers. However, the AAC's governance was proved tricky, since the elected farmers established only informal customer relationships with the cooperative members. The disappointed members reacted by abandoning the AAC or supplying only the worst part of their apple production, while they delivered the best to wholesalers for a better price. No obligation for exclusive supply was imposed by the AAC on its members.

8.2.2 'The AAC was trapped by government funding– Standardisation/packaging plants exploit farmers' (1981-1991)

In the 1980's, the socialist party passed a Law boosting government funding. However, this misguided cooperatives to heavily invest in expensive constructions e.g. standardisation/ packaging units, without having previously secured production input and high quality, through an obligation for exclusive supply and encouraging quality-

orientation respectively. The AAC obtained the first standardisation/ packaging unit in Agia region. However, due to inefficiency and its leaders' nepotism, the AAC has suffered from high production costs, huge accumulated debts and low capital equity. As a negative example, the AAC's situation discouraged any movement of local apple farmers towards stronger farmer horizontal relations.

8.2.3 'Dramatic market changes-Wholesalers invest in standardisation/packaging units in Agia' (1992-2004)

In 1992, the Greek government pursued free-market policies, e.g. imports and retail concentration. Since then, the wholesalers were not any longer the most powerful supply chain link, because the domestic multiple retailers prevailed over them. Higher quality standards were set, such as standardisation, packaging and more recently, quality certification, which forced some wholesalers of fresh fruits and vegetables to invest upstream and become packers located within the main production regions. For apples, the Agia region, representing the highest domestic crop, was a meaningful choice for the wholesalers.

Even as packers, the wholesalers were found to maintain their hard attitude towards the farmers. In fact, it was reported that they exploited the fact that agreements between farmers and packers were verbal instead of written contracts, in two ways. First, this allowed packers to enter and exit the market without legal consequences. Frequently, some of them after a short period in business operation, declared bankruptcy, and left local farmers unpaid. Then another wholesaler would buy the factory, and the process would start again. Second, there was also the way of unfair discounts and delays in the final payment, justified by the packers' claims that during the processing, they discovered lower quality or quantity than that expected/agreed. This was possible, since there was no established process or quality standards for secure measurement of quality and quantity of farmers' delivered production to the packers, prior to the processing stage.

In the mid-90's, both Athenian wholesalers with local origins, Xatzisalatas Ltd, merchandising mainly apples and Xatzidakhs Ltd, merchandising mainly apples and pears, used the European/government funding to invest in standardisation/packaging units in Agia region. Since 2003, Xatzisalatas Ltd, Xatzidakhs Ltd, and later Poulis Ltd, distribute almost the total of their annual apple output as branded apples, each brand corresponding to the name of the packing firm.

During the same period, some efforts of a few farmer groups failed to counteract the wholesalers' exploitation. These groups used the European/government funding specific to the 'farmer groups' to establish their own cooperative enterprise, but lacked cooperative education and successful experience. Combined with the AAC's problematic situation, these failures have made most Agia farmers hesitate to act collectively.

Since 2001, some positive changes have happened in the AAC. Its manager retired and the AAC's agriculturist was charged with management responsibilities. Also, a new board of directors was elected. Having learnt by past mistakes, they applied a reforming governance policy. However, the accumulated debts and discontent, stemming from the nepotism of the previous AAC's board of directors, combined with the lack of exclusive production delivery to the AAC, made few local farmers trust the reformed AAC.

In 2004, the AAC current manager got involved in a networking initiative of the Thessaly Periphery management agency among the AAC, the ZAC and an apple cooperative in north Greece. This top-down networking initiative failed, due to the huge differences in cooperative governance and market position.

Since the mid 90's a few big Agia farmers have frequently visited Bolzano in Italy to be informed about modern cultivating and irrigation systems. Given the low-lying nature of the Agia region, these modern systems could be easily applied, so the Agia farmers

extensively re-structured their farms using the European/government funding. Consequently, the Agia farmers improved their position in relation to the Zagora farmers, since they reduced costs and improved macroscopic apple features thanks to modern cultivating systems, which cannot be applied easily in the Zagora mountainous region. However, it remains questionable whether the gap between Zagora and Agia apples in taste, attractiveness and perishability is reduced. Despite the added value of standardisation and packaging, the price of Agia apples remains low, since the final consumers little recognise the Agia origin or existing brands. This is explained by the short history of launching Agia apples as a branded product rather than as a commodity one. The existing Agia brands compete mainly on the basis of the attractive price compared to the expensive Zagorin or Italian branded apples.

8.2.4 'Investments of a powerful wholesaler in Agia region - the integrated apple production introduced' (2004-present)

In 2004, using the European/government funding, Poulis Ltd, one of the biggest domestic wholesalers invested upstream, as a packer in major fruit production Greek regions, i.e. apples in Agia, citrus fruits in Sparta, and peaches in Veria. Its presence had a dramatic influence on the balance among the existing Agia packers. The first year, Poulis Ltd allured other packers to offer Agia farmers high prices, however the market could not absorb the whole quantity of Agia apples on a premium price. So, big profit losses led to the dramatic fall in prices offered to Agia apple farmers in the next production year. This evolution exasperated farmers, resulting in bad feeling and unsuccessful hunting for collective solutions. For example, the current AAC leaders have been keen on finding an applicable manner to start from scratch a new AAC to counteract wholesalers/packers' exploitation.

In 2004, Carrefour-Marinopoulos Ltd, the biggest domestic multiple retailer, encouraged Xatzisalatas Ltd to introduce integrated apple production management. Xatzisalatas Ltd persuaded a farmer group to convert to this new production system. As a result, a closer

packer-farmer relationship flourished, including regular agriculturist's guidance; guaranteed purchase of the whole quantity at a satisfactory price; and support with certification bureaucracy.

In 2005, the AAC and a private agriculturist followed the example of Xatzisalatas and organised two farmer groups converted to integrated apple production management, establishing a similar close relationship with the farmers.

8.3 Analysis of Factors Influencing Historical Evolution

8.3.1 Introduction

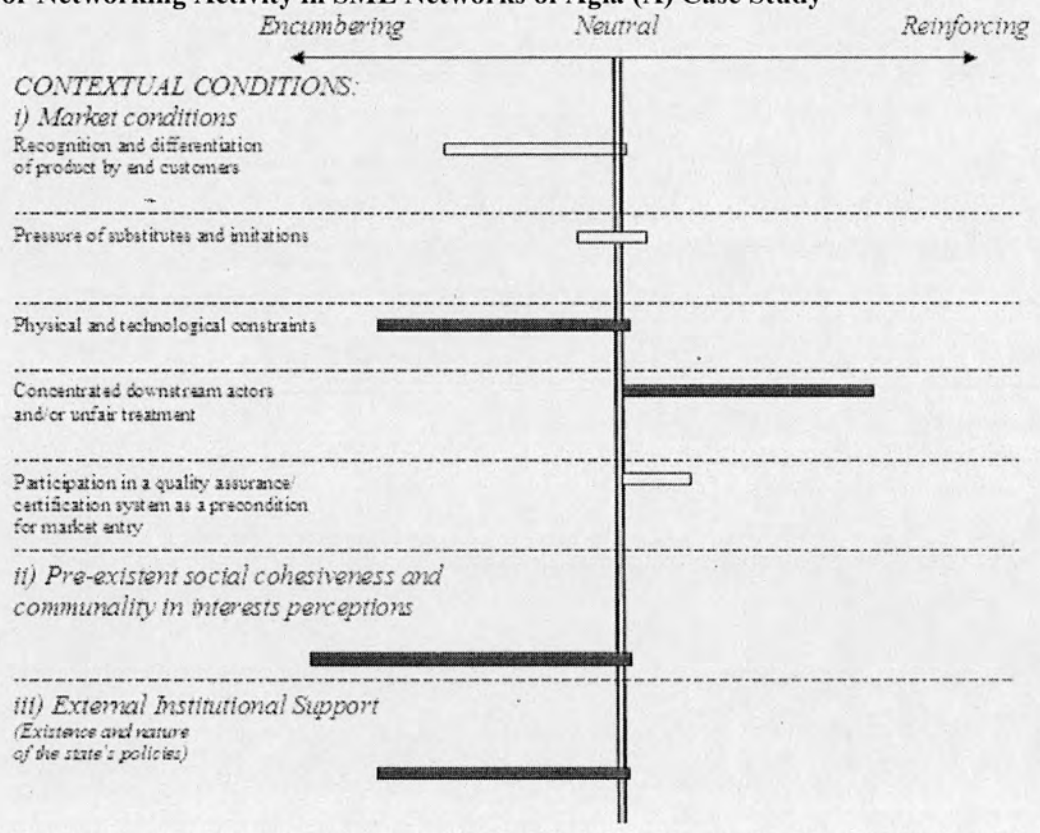
Having outlined the key events in the historical evolution of the Agia network evolution, attention now turns towards the crucial contextual factors that can explain the network evolution. It may be recalled from Chapter 3 that these factors are market conditions, social cohesiveness and external institutional support. Figure 8.1 summarises the impact of all factors on the Agia network evolution diagrammatically⁶³; most important impacts are depicted with black bars, less important with white bars. As it is shown in Figure 8.1, four factors were found to be particularly important to the Agia network evolution: (i) the physical and technological constraints; (ii) the unfair treatment of farmers by the downstream actors; (iii) social cohesiveness and (iv) external institutional support. The next sections describe and explain the impacts of these factors.

8.3.2 Physical and Technological Constraints

It may be recalled from Chapter 3 that physical and technological constraints can weaken both real (e.g. cooperative organisation) or “virtual” vertical integrated forms (e.g. contract agriculture), if there are not sufficient mechanisms to obstruct the repeated

⁶³ For an analysis of the less important contextual factors for the Agia case study, see the comment for the footnote 63 from Chapter 8 in the Appendix I

Figure 8.1: Contextual factors Reinforcing and Encumbering the Collective Action or Networking Activity in SME Networks of Agia (A) Case Study



opportunistic behaviour of some network members, due to both information asymmetry and quality uncertainty (De Roest, 1999; Chappuis and Sans, 1999; Barjolle and Chappuis, 2000).

In Agia case, evidence was found to support this theoretical proposition. Agia apples are characterised by higher physical constraints: much more perishability and scant resistance to transportation, standardisation and preservation, than that of Zagorin apples. Combined with the technological constraint of lack of sophisticated techniques for assessing apple quality, these have two results. First, the increased inability to distinguish whether the deviation from the prior agreement on quantity and quality

standards was caused by environmental factors e.g. bad weather conditions or by human mistake, intentional or not. Particularly, the impact is that these constraints leave plenty of leeway to the actors to dishonour their word/ agreement and embrace opportunistic behaviours. (Nevertheless, it is the actors' choice to act in a reliable or opportunistic way.) Second, it creates higher pressure to sell apples quickly to the market. The packers often react by cheating the farmers. In fact, they plead the inability to assess whether a mistake was made intentionally or not by the farmer as the pretext of paying off in very unfavourable conditions. On their behalf, the packers conveyed their action in a manner suggesting it was an unwilling, but unavoidable step to share the increased transactional costs due to information asymmetry and quality uncertainty, as well as to punish those farmers with opportunistic attitude.

However, a vicious circle is created in this way, since the packers fail to communicate effectively the need of minimising quality heterogeneity during the harvest to the farmers. This is translated to higher costs of mechanical sort-out for the standardisation units. Overall, the physical and technological constraints give the opportunity to both Agia farmers and packers to behave opportunistically, increasing mistrust and weakening inter-firm relationships. This happens because both sides focus on lower quality standards and on short-term relationships.

8.3.3 Unfair Treatment of Farmers by Downstream Actors

As highlighted in Chapter 3, if the downstream actors in a supply chain are relatively concentrated and treat fragmented suppliers unfairly, then the development of 'countervailing power' networks from the suppliers is stimulated (Grandori and Soda, 1995).

The analysis of Agia case illuminated the phenomenon of bad feeling, caused by the unfair treatment of fragmented farmers by the concentrated wholesalers/packers. By

chance, the data collection took place in a period of great agitation, when the dramatic fall in prices had exasperated Agia farmers. Within such bad feeling, voices encouraging a 'countervailing power' network were heard louder among worried farmers. Most Agia farmers gathered and agreed on keeping a common "harder" attitude towards the packers, refusing to accept lower prices than a minimum standard. This verbal agreement represented the 'seed' for collective action against the downstream actors' power. On their behalf, the packers reacted offensively by approaching the few Agia big farmers and offering exceptionally attractive prices. In this way, the packers sought both to secure the minimum input needed to operate and weaken even more the bargain power of the smaller farmers, to whom the packers offered lower prices than the minimum standard. This represented a challenge for Agia farmers' networking initiative, leaving two options: either give in or resist. The fact that some Agia farmers gave in reflected their little commitment to collective action, their individualism; lack of discipline and belief /confidence of "being capable of making a collective scheme work". This was demonstrated in the pessimist views of interviewees, who often referred to failed past networking initiatives by local farmer groups, the disappointing situation of the AAC and the times such bad feeling failed to inspire a 'solid resistance'. The lack of social cohesiveness, the absence of people able to persuade the critical mass that they can lead the agitation against the downstream actors, and the loose intra-connection of the critical mass were reported by the interviewees to explain why attempts for collective action were unsuccessful.

Clearly, although unfair treatment of fragmented suppliers by concentrated downstream actors brings under serious consideration the establishment of a 'countervailing power' network, other factors were found to determine whether this remained a 'wish' or be materialised.

"The Agia apple cooperative has approximately 100 cooperative members. Their number is decreasing. Most members used to supply their production of better quality to the traders, and give the part of inferior quality to the cooperative, whose tradability was doubtful. The last 3-4 years the prices achieved by the

cooperative are better than those offered by the traders. In the past, the opposite happened because first the cost of cooperative's employees is high, second some of them do not do their job correctly. Here we have the problem called 'kanonia' ("cannons") where after a few years of good collaboration with the local farmers some traders suddenly say "I am bankrupted, I cannot pay off you..." [Agia Farmer]

"The price the traders-packers actually paid the farmer is lower (e.g. 0.45 Euros) than that originally they had promised when the apple produce was delivered (e.g. 0.5 Euros). We call this problem 'psalidia' ("scissors"), for example the packers paid for 50 tonnes while you have delivered 55 tonnes, the total payment is 10,500 Euros, but you get paid 10,000 Euros. They scissor both the quantity and price." [Agia Farmer]

"It is interesting to see what happened this year. The traders-packers knew that the great majority of Agia farmers had no access to market and storage facilities, that they also have bank loans to pay off and need immediately cash. The 3-4 biggest traders seem that they discussed together and decided to book all the storage facilities and harvestings equipment available in the area, before buying any produce. They were waiting, starting approximately a month later the discussion with the Agia farmers for buying their apples. It was aforethought. They aimed to create panic to local farmers and force them first to contact the traders-packers rather the opposite as used to happen. They started negotiating very low prices, when apples started become mature and could not stay longer on the trees. They offered 0.30-0.35 Euros compared to 0.45 -0.75 or 0.80 per kilo the previous year. The Agia farmers did not know what to do, because the cost per kilo of apples is 0.30-0.35Euros." [Agia Farmer]

"Farming for us is soul-destroying. There is uncertainty and insecurity. We have made large farm investments, but we do not know what is going to happen at the end, who will buy our produce, what will be the price, whether we are paid off..." [Agia Farmer]

8.3.4 Pre-existent Social Cohesiveness and Communality in Interests/Perceptions

In Chapter 3, Hu and Korneliussen (1997) proposed that the pre-existing social-cultural bonds between network members, which are expressed through communality in interests/perceptions, enhance the likelihood of strong and durable network relations. In the Agia case, the lack of social cohesiveness and communality in interests/perceptions

admitted by the interviewees was striking, and provided evidence that both cohesiveness and communality are fundamental ingredients for a collective action to flourish.

The pre-existing socio-cultural bonds appeared to be loose, as can be inferred by the views of interviewees. A strong spirit of competition, jealousy for the prosperity of their fellow-villagers, willingness to increase personal benefits in expense of a collective effort, and the notion that 'the less local farmers survive, the better it seems to be' were behavioural features, drawn from the interviews. Regarding communality in interests and perceptions, high variability was observed across interviewees, with some directly opposing views expressed: short versus long-term focus; collective versus individual benefits; inclination to deceive versus to honour the agreement; improve quality versus profit.

Such differences in Agia farmers' behaviour and attitude may be partially explained by the variation in farm size and economic prosperity. However, it is noticeable how deep the mistrust is rooted between farmers, even of those having similar farm size. The faith in other farmers' words, actions and commitment was found severely shaken by repeated cases of disloyalty in common agreements. Despite their initial promise for a minimum price, the Agia farmers often broke their word by compromising for less, in order to sell their whole production or persuade the packer to choose them instead of other farmers. Then they pretended to each other that they had sold at a better price than the actual one (i.e. they hesitated to share their problems). In this way, trust among the farmers has been lost and replaced by suspicion, aversion and recrimination.

"10% of the Agia farmers are big and enjoy a better treatment from the traders-packers. They have some responsibility in what happened this year. They offered their produce under satisfactory prices, which were kept secret, so the packers had a good quantity for their factory to operate and could force the 50% of other farmers to accept very low prices. The remaining 40% market their own produce, as open farmer market merchants to Athens and Larissa city." [Agia Farmer]

"All the disappointment and complaints of the Agia farmers are only expressed among friends in the local café shops, they do not have the courage to express openly their experiences of unfair treatment in the general gatherings, as that taken place after what happened this year. ...There is a paradox, even in personal discussions, most of the farmers pretend that they were offered a better price (i.e. 0.33 Euros per kilo) than the actual one (i.e. 0.20 Euros)." [Agia Apple Cooperative Administrator]

Another example of such behaviour is found in the AAC. The board of directors used to treat the members unfairly by making discriminations in the priority with which the farmers' production was sold in the wholesaler outlet in Athens. As a reaction, most of the farmers-members exited the cooperative or delivered only the inferior quality of their production, which was rejected by the private packers. Having learnt by past mistakes, the AAC's new commanders have applied a reforming governance policy since 2001. However, very few Agia farmers believe that this reforming policy can reverse the sombre picture of the AAC's future. Even the current AAC leaders try to find an applicable manner to start from scratch a new AAC to counteract wholesalers/packers' exploitation, without success so far.

As an accumulative result, it has been deeply recorded in the collective memory of the great majority of Agia farmers that a collective scheme is almost impossible to sustain, since both its leaders and critical mass initiate or join the scheme, hoping to reap its benefits but at the expense of others involved. They believed that is a matter of time before the commanders' nepotism or members' cheating will be exposed. Interestingly, it is noticeable how the wholesalers/packers, who also show a similar individualistic and defensive attitude towards other packers, take advantage of weak social cohesiveness among Agia farmers, aiming to 'stifle' any initiative of 'countervailing power' network. Overall, the Agia case provided strong evidence that the lack of faith of network members in their own capabilities and other actors' intentions constitute a very fragile basis for any collective scheme to build on. It results in a vicious circle of lack of faith, commitment and success, leading almost inexorably to deterioration in the Agia farmers' situation.

8.3.5 External Institutional Support

It may be recalled from Chapter 3 that the external institutional support can enhance the emergence and sustainability of SME networks, provided that the networks' autonomy and self-management are respected, and that flexibility and efficiency are promoted (Amin and Thrift, 1995). The Agia case offered evidence for how the existing external institutional support proved harmful in the case of the AAC.

The Cooperative Law 1982 boosted the European/government funding for farmer cooperatives, but also misguided them to heavily invest in expensive constructions such as the first standardisation/ packaging unit in Agia region, without a focus on efficiency and sustainability. So, the AAC established expensive standardisation equipment without having previously secured input and high quality. Particularly, its members were not required either to exclusively deliver the whole apple production for a continuous number of years, or to improve the quality, because there was no quality-rewarding payment system. Simultaneously, the same law abrogated the external (e.g. from state agencies) or internal inspection mechanisms. This resulted in promoting political intervention, which in turn led to the phenomenon of cooperative commanders' nepotism. Consequently, the AAC's disappointed members reacted by abandoning the cooperative or supplying only the worst part of their apple production, while they were delivering the best to wholesalers for a better price. Because of that, the AAC has suffered from high production costs, huge accumulated debt and low capital equity.

"The governments made social policy through farmer cooperatives. The AAC now has an excessive number of permanent employees, whom we were forced to hire, although their salaries could not be covered. As explained, their selection was not based on their qualifications. The AAC also was led to invest in a standardisation unit, but the public funding was never paid off, resulting into a huge debt now. This debt has prohibited our access to any current public funds." [Agia Apple Cooperative Administrator]

"Our cooperative has a big debt, resulted from the government past policies. Since 1981, the government required all the standardisation and packaging of the whole production supplied to the market. However, the government did not

enforce all those involved in marketing of fresh fruit and vegetables to apply the policy. This has started to happen only now. Through funding in 1981, the AAC built the first standardisation unit in the region, but because the policy was not applied, the cooperative run into dept, as it could not cover the fixed costs of the construction. ... Due to the AAC's huge debt, now we cannot take a loan for the Agricultural bank and improve our cash flow. Additionally, the last years, the market exchanges mainly are done through cheque; this creates more problems in the cash flow. On the contrary, the traders-packers have a good cash flow, so they usually have paid off the farmers till Christmas and also give forepayments, so the farmers can cover their expenses during the harvest time." [Agia Farmer]

Besides, the eligibility criteria and inspection mechanisms for the public funding of private SMEs, particularly for packers in Agia case, proved inefficient to prevent wholesalers/packers from deliberately leading themselves to bankruptcy after few years of business operation, leaving local farmers unpaid. Then another wholesaler was buying the factory in a bargain price, and the process was usually repeated. This was proved very destructive for the market balance in Agia area, with the farmers being the direct victims. Moreover, in long-term it clearly encumbered bilateral, trustful inter-firm relationships from flourishing.

Overall, the Agia case illustrates that when public funding regulations do not prioritise SMEs' efficiency and sustainability or respect collective schemes' autonomy/self-management, negative chain reactions are created. Funding appeared to have a mixture of consequences, affecting dramatically the market balance, both in the short and long-term and the evolution of inter-firm relationships. Therefore, it seems crucial that public funding needs to be used as a tool in order to distinguish the beneficial from harmful practices, rewarding only efficient and sustainable agrifood enterprises, either collective or private.

Having explained the impact of certain contextual factors on the historical evolution of the Agia network, the Chapter continues by describing the present day network structure.

8.4 Structure of the Current Agia Network

The Agia network structure is presented in Figures 8.2 and 8.3. The five-stage supply chain is shown in Figure 8.2, where the three private and one cooperative standardisation/packaging units constitute the focal point.

As Figure 8.2 shows, the first stage consists of input suppliers to farmers (i.e. suppliers of fertilisers and pest control equipment) or standardisation/packaging units (i.e. suppliers of standardising machinery or packaging materials). The second stage comprises around 450 apple farmers, supplying the four standardising/packing enterprises, of which less than 50 farmers have converted to integrated farming. The latter have joined one of the three existing farmer groups who produce and certify apples as products of integrated apple production management: the group of Xatzisalatas Ltd, the group of the AAC and another group initiated by a local private agricultural agency. They show some loyalty to their chosen group, in noticeable contrast to the remaining farmers following conventional apple farming, who frequently switch between the packers. At the third stage, for the purpose of this research, the three largest private packing enterprises, (Poulis Ltd, Xatzisalatas Ltd and Xatzidakis Ltd), and one cooperative (the Agia Apple Cooperative -AAC) represent the focal point of the chain. All four enterprises grade and store apples in their own facilities: the standardisation, packaging and storage plant. The three private firms recently distribute almost the total of their annual apple output as branded apples, each brand corresponding to the name of the packing firm. The cooperative enterprise only distributes unbranded apples. The final two stages present the apple distribution to retail outlets (stage 4 and 5 in Figure 8.2). The four enterprises operate downstream, also as wholesalers, supplying other wholesalers and hundreds of small food retailers at the central fresh product market in Athens via their own sales outlets. Each private firm has occasionally supplied one domestic multiple retailer, with the most regular relationship being between Xatzisalatas Ltd and Carrefour-Marinopoulos Ltd, which encouraged Xatzisalatas Ltd to introduce the integrated apple production management.

Figure 8.3 depicts actors in the Agia network who are external to the supply chain and namely are: other cooperatives in Greece; domestic private or public agricultural/developmental agencies; the 'Fruit News' magazine.

Poulis Ltd belongs to the foundation team of the 'Association of Greek Packers for Fresh Fruits and Vegetables' and is linked with a small number of actors of European apple production networks. The current AAC manager has links with the Thessalia Periphery Agency.

Overall, the Agia network presents some 'typical' features of unilateral relationships between domestic agrifood actors, and exhibits links only with domestic knowledge/information exchange networks, external to the supply chain.

8.5 Performance of the Agia Network

8.5.1 Introduction

The selection of the Agia case was based on two criteria: unprocessed product and apparently weak market performance. However, the judgment for performance was based only on an external evaluation. So, this section offers a more detailed internal assessment to validate whether the Agia case does indeed exhibit weak market performance.

As with the other three cases, the assessment employs the work of Human and Provan (1997), who identified two kinds of SME networks' performance outcomes:

Figure 8.2: Internal Actors of the Supply Chain of Agia Apples

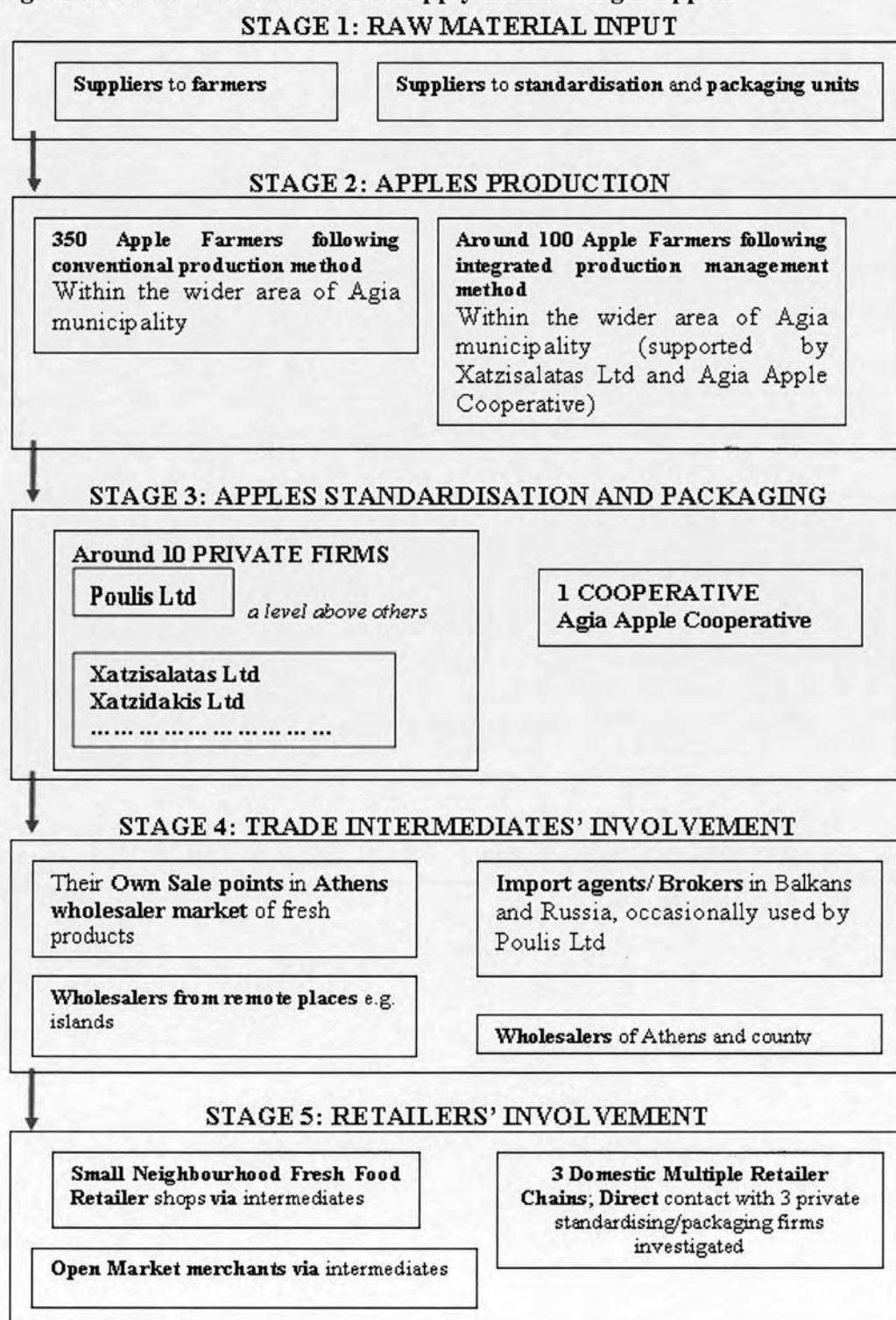
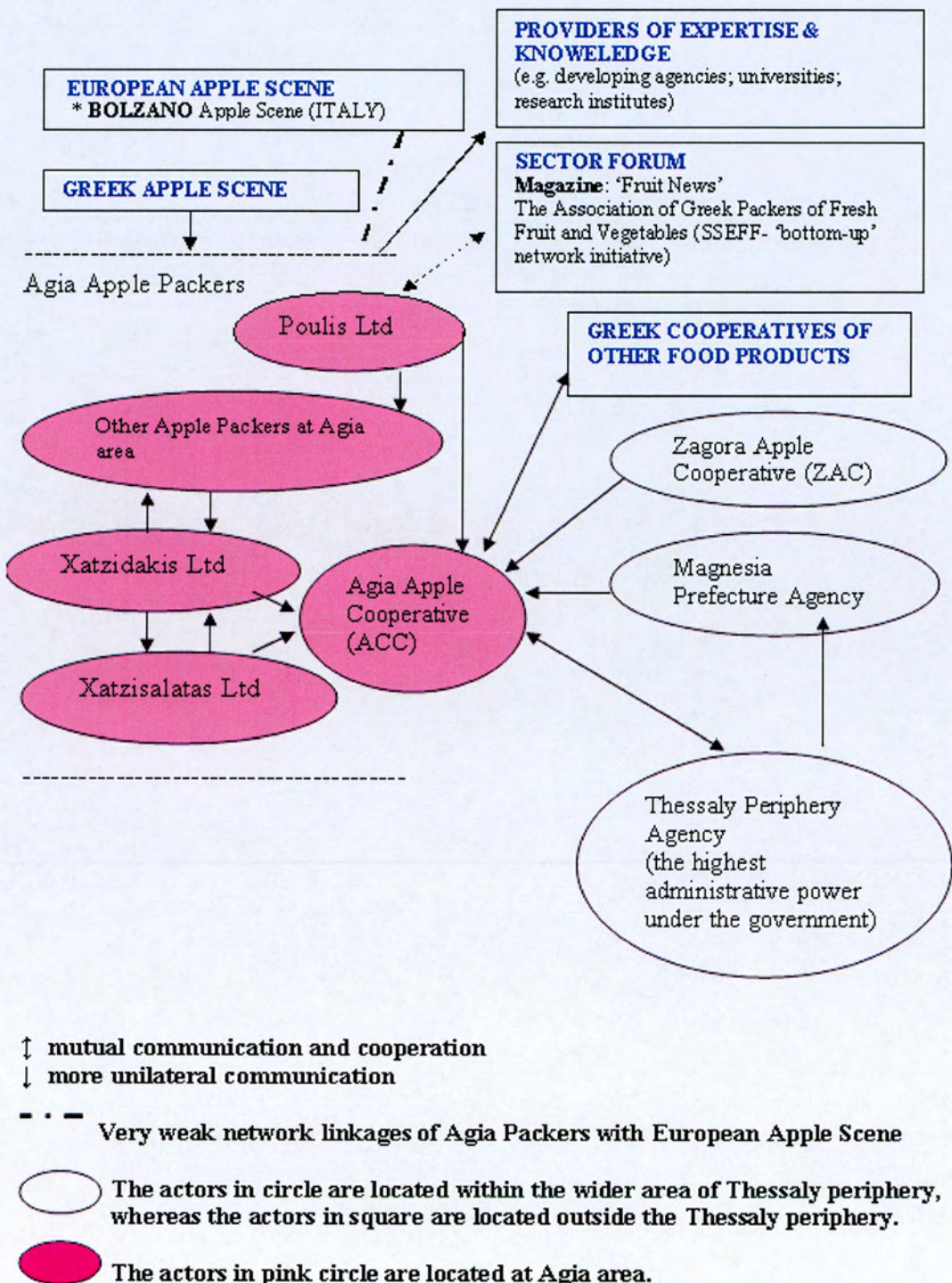


Figure 8.3: Networks of the Agia Apple Packers with external actors of the Supply Chain of Agia Apples



transactional and transformational. The former includes the improvement in financial performance, organisation credibility and access to resources, while the latter considers a change of members' attitude towards a more cooperative behaviour after experiencing the networking benefits. Given what has been revealed about the Agia network evolution, both weak transactional and transformational outcomes may be expected.

8.5.2 Transactional Outcomes of the Agia Network

The Agia farmers conveyed clearly in their interviews that they suffer from: (i) unfair treatment in terms of very low prices offered; (ii) inability to ascertain whether they have been cheated or not; (iii) unsecured payment and uncertain purchase of their whole production due to lack of a single-transaction contract; and (iv) lack of secure storage, reliable market information and agriculturist advice. Besides, as fragmented suppliers, they have little credibility to customers and public agencies. Overall, Agia farmers have not access to the profits of the added value to apples thanks to standardisation, packaging and branding from the packers. The uncertain market position of Agia farmers was confirmed by their limited bargain power. The only exception found was the case of farmers following integrated apple production management and joining the relative farmer group of Xatzisalatatas Ltd. This packer has a contract with Carrefour-Marinopoulos Ltd and can offer the farmers producing product of certified quality an assured purchase of their whole production at a better price than that of conventional product. Reliable agriculturist advice and administrative support for preparing all the documentation for quality certification was also offered.

From their viewpoint, the packers reported that they suffer from the way that their relationships with local farmers have evolved over time. They cannot enjoy a stable production base, in other words stable scale economies, owing to Agia farmers' frequent switching between packers. They run their business on a high risk to be cheated by the farmers, who deliberately deliver a mixture of product qualities, which results in increasing the sorting out costs during standardisation. The packers mentioned that they

struggle to build trustful long-term relationships with Agia farmers due to the farmers' deep suspicion derived from past negative experiences. So each year, the packers need to be involved in a price war with other local packers to secure the minimum needed input for their factory to operate. Downstream, despite the existence of brands successfully capitalising on the domestic consumers' willingness to pay for a premium product such as 'Zagorin' apples and Italian brands, the brands of the Agia private packers have not yet reached that level of success in product differentiation. Still in the minds of both the retailers and end-customers, the Agia apples seem to constitute more a commodity rather than a branded product. Some evidence suggests that the domestic final consumers have started to differentiate the Agia origin more in terms of its lower price rather than premium quality. In conclusion, the potential of adding value through standardisation, packaging and labelling was found to be little exploited in Agia case so far. The AAC has even bigger losses of profits from adding value, by only distributing unbranded apples. Interestingly, despite their strong power in the Athenian wholesaler market for fresh fruits and vegetables, the three private packers were found to struggle to establish regular collaboration with the domestic multiple retailers, so they were forced to distribute the great majority of their output to small retailers (e.g. small neighbourhood fresh food retailers or open market merchants) whose market share has presented a dramatic drop over the last 15 years. Even Xatzisalatas Ltd was found to have a more regular but a clearly unilateral relationship with Carrefour-Marinopoulos Ltd.

Overall, transactional outcomes of the Agia network were found to be weak, reflecting its weak economic performance as was expected.

8.5.3 Transformational Outcomes of the Agia Network

The Agia network is a case characterised by loose and informal network linkages between actors, who seem to deeply believe in temporarily joining a network strictly only for serving their individualistic interests. Therefore, any formal or 'serious' commitment to network requirements is deemed unnecessary, even harmful, given the

numerous past experiences that faith in collective principles was manipulated. Agia farmers and packers consider that it is 'wiser' to keep a defensive attitude when joining a network for "*collecting up to date information of efficient practices and applying them outside the collective scheme/initiative*". The other network members are perceived and treated as 'competitors' with suspicious intentions, who threaten to take advantage of the inter-firm relationship exchange of knowledge/information. The Agia informal network was found to be recognised as an entity, but narrowly perceived as a forum where the actors diplomatically seek to assess the relative power of the other actors, discover their weaknesses and hidden strengths in order to exploit or imitate them respectively. Therefore, the network actors join the network as if walking into a 'field of battle', keeping their weaknesses and strengths well hidden and seeking to eliminate all their opponents. Networking was conveyed in a manner suggesting it was a necessary, but a hard and dangerous power game, where those losing might not survive. As a result, beliefs in common action, trustful sharing, and devotion in collective goals are almost absent in the mindset of the great majority of Agia network actors. Reversely, it seems that they have adjusted to this manner of networking, therefore they usually have a short-term and strictly individualistic perspective; establish informal, loose network linkages, by frequently switching between partners; give little or false information about themselves; seek effortless gain and show indiscipline.

Only two exceptions in inter firm cooperation were found, one in the farmer group following integrated apple production management, initiated by Xatzisalatas Ltd, and another in the current leaders of the AAC. Xatzisalatas Ltd treated the farmer group in an exceptionally supportive and fair manner, compared to the usual Agia farmer-packer relationship. As a result, they started to show more faith and disposition to build a trustful relationship with the packer. Moreover, they showed discipline and commitment to improve product quality to the level needed to certify the quality. Besides, they respected their agreement to exclusively supply Xatzisalatas Ltd, since the packer responded by offering a better price. These positive transformational outcomes suggest that when the intentions for a fair agreement become clear, are supported by a secure

payment thanks to the contract with a powerful retailer, and combined with practical support offered to the farmers (e.g. agriculturist's advice, administration, farming training), there is still room for a bilateral farmer-packer relationship to flourish. The second exception concerns the AAC's current leaders who seem to constitute a group of almost 'romantic' believers in collective principles. In their interviews, they expressed their admiration for the ZAC's success and disappointment for the opportunities lost in the case of the AAC. However, the crucial finding was that by remaining members of the AAC and reflecting heavily on its evolution over time, they managed to understand which preconditions were not satisfied and the AAC failed as a collective scheme. This suggests that positive transformational outcomes can occur, even within unfavourable conditions, when the network actors resist in refuting their collective principles and use their experiences to identify the preconditions for building a sustainable collective scheme. However, it is questionable whether these few visionaries can constitute the critical mass for changing the deeply rooted defensive attitude of the great majority of Agia farmers, especially when they lack the attractive element of securing absorption of the whole product quantity at a satisfactory price.

Overall, the Agia case not only illustrated a different approach of Agia actors to networking, justified by certain perceptions about their own position within a network and the utility of this network as a means for serving their individual goals, but also it gave good insight into how these perceptions have been arrived at. Participating in the Agia network had mainly negative transformational outcomes for Agia actors, since they have been gradually convinced that they need to be careful with networking to avoid exposing themselves and being manipulated by other network actors.

8.6 Features of the Agia Network

8.6.1 Introduction

This section contains details regarding the key features of the Agia network and their impact on the performance of the network.

As explained in preceding result chapters and drawn from literature, there are three key features: (i) the profile of network members, (ii) the competencies of the Agia network actors, and (iii) the network governance.

Figure 8.4: Effects of Agia Network (A) Features on Performance Outcomes

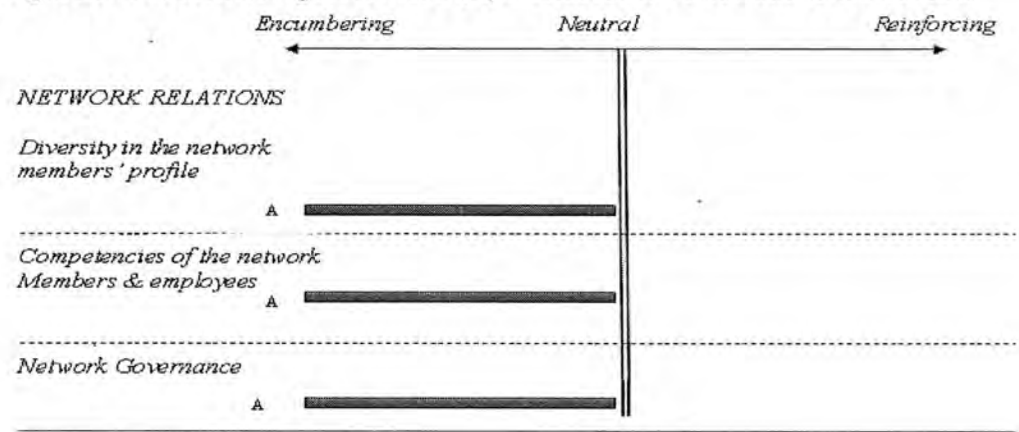


Figure 8.5: Transactional and Transformational Performance Outcomes of the Agia Network (A)

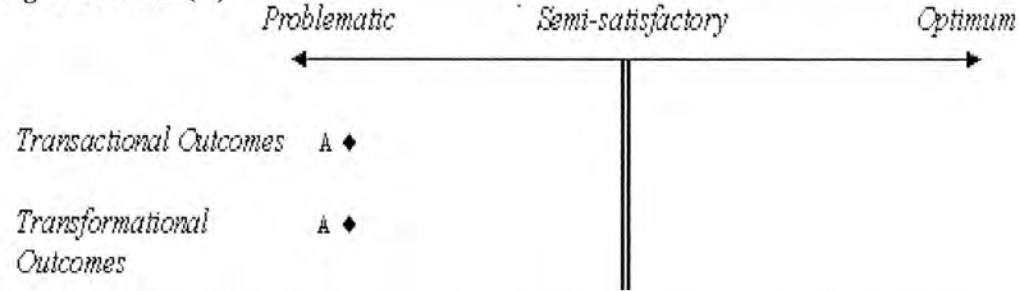


Figure 8.4 illustrates whether these features reinforced or encumbered the network performance of the Agia network. What follows in the next three sections is the discussion of the outcomes of the analysis regarding these network features' impact. As Figure 8.4 shows, the overwhelming picture is negative.

8.6.2 The Agia Network: Member Profile

The first network feature influencing performance is the profile of the network's members. Milliken and Martins (1996) identified two types of network members'

profile: physical and attitudinal. The former refers to some 'observed' attributes such as age, land size, and having a second job, whereas the latter denotes 'less visible or underlying' attributes, for example perspective, goals, reluctance to change. It is expected that high diversity in either physical or attitudinal profile impedes network performance outcomes (Milliken and Martins, 1996). Given the weak transactional and transformational performance of the Agia network, some heterogeneity in members' profile was expected.

The Agia network indeed exhibits a notable level of heterogeneity in both physical and attitudinal members' profile. In the course of scrutinising the interviewees' perceptions and relating them to their profile characteristics, it emerged that the high diversity in physical profile directly relates to the high diversity in Agia farmers' attitude and behaviour. The interviewees expressed openly how difficult it is for their opinions, perceptions and behaviours to be comprehended by other Agia farmers with different features, such as farm size, and having a second job or access to open markets. For instance, the big farmers who own storage, can afford to travel in Bolzano area and introduce first farming innovation in a large scale. They were found to enjoy increased bargaining power, and be preferred as suppliers by the packers than small farmers. Furthermore, Agia farmers appeared to differ in professionalism, time-perspective of goals, commitment to quality improvement and collective action. Most interviewees expressed openly an individualistic approach, justified as 'the only way to survive', given the numerous examples of failed collective initiatives. Overall, the member profile of the Agia network members was considered as a case of high heterogeneity, reflected by the strong beliefs that *'the less other network actors know about you, the less vulnerable you are'* and *'how can our perceptions/goals be combined, since we are so different?'*.

Such high profile heterogeneity could explain some of the very low social-integration, increased transactional costs, unstable scale economies, unsatisfactory improvement in quality, and little transformation in Agia network members' perceptions and behaviours.

8.6.2 The Agia Network: Competencies

The second network feature influencing performance is the members' competencies. If network members have a range of skills at a sufficient level according to their responsibilities, then the SME network is expected to perform well (Provan and Kenis (2008,). Three types of skills are mainly required: production expertise, marketing/entrepreneurial skills and collective-management capabilities. Given the weak transactional and transformational outcomes of the Agia network, the aforementioned skills were expected to exist at an insufficient level.

First, regarding the production skills, Agia farmers apply modern cost-effective cultivating and irrigating systems, although many appeared to have little knowledge and commitment to improve apple quality, which increases the costs of the sorting out process for the packers. The latter have satisfactory standardisation competencies. However, they complain that most Agia farmers overestimate their expertise and deliberately ignore the packers' instructions for selecting only the best product quality to deliver to the standardisation units.

Second, regarding the marketing/entrepreneurial skills, the packers were found to have slightly better empirical competencies than Agia farmers, however even the former appeared to face difficulties in detecting market tendencies before domestic competitors such as the ZAC. This, in combination with the fact that Agia actors concentrate only on the defensive domestic knowledge/information exchange networks, partially explains why Agia packers do not lead the domestic market. The little reliance on European networks and that Agia packers deliberately avoid sharing marketing intelligence with other network actors were noticeable. Particularly, most Agia packers are Athenian wholesalers; therefore their personal network includes mainly other wholesalers and small retailers, while their links with the multiple retailers appeared to have been dramatically weakened during the last 15 years. Agia packers were found to keep the Athenian wholesalers' 'typical' attitude of establishing unilateral relationships with both

fragmented suppliers and retailers. Only with the multiple retailers, Agia packers are forced to change style in their inter-firm relationships, since there, the competition is so sharp that only those packers showing high professionalism and interest in building trustful relationships can survive in the long term. However, the three private packers appeared to struggle to establish regular collaboration with the domestic multiple retailers, and even Xatzisalatas Ltd, who was more successful, was compelled to adapt to the requirements of Carrefour-Marinopoulos Ltd for radical changes in farming system (i.e. introduction of integrated apple management production). Finally, the discussion about market-orientation and professionalism with all three owners/managers of private packaging units and the AAC's leaders revealed the shortage in marketing skills, since they referred to quality improvement in terms only of elements appertaining to the core product, not the augmented product or the relationship with the downstream actors. This might explain some of their difficulty to build bilateral relationships with the downstream actors and differentiate their product.

Third, regarding the collective-management skills, the analysis revealed that this where the Agia network suffers its biggest shortage of competencies. Agia farmers have frequently concluded that a collective scheme could stop their unfair treatment by the packers/wholesalers, but no one with sufficient leadership qualities to materialise a sustainable and beneficial collective initiative was found. The interviewees indicated that people, who tried to play a leading role, were proved to lack a series of critical skills, such as: understanding of and ability to communicate effectively crucial cooperative principles (e.g. transparency; equity; justifiability; democracy; discipline) to the critical mass; capability of detecting possible pitfalls; ability to inspire and convince the critical mass for their honest intentions; and capability of coordinating and tackling crises and indiscipline. Hence, incidents of lack of meritocracy, impartiality and transparency unavoidably appeared sooner or later, indicating usually the dissolution of farmer partnerships. The interviewees used the failed examples of farmer groups and the AAC to confirm the lack of collective-management skills of those leaders. However, in the course of scrutinising the interviewees' perceptions and relating them to their

actions, it emerged that the deeply rooted suspicion embedded in Agia farmers' perception creates such hostile conditions for a collective scheme to flourish that only someone with exceptionally strong leadership qualities and long-gained trust on his/her face could dilute this suspicion. In other words, even the critical masses in Agia case tend to be relatively less receptive to directions or rules given by a leader. Evidence is provided by the case of the current AAC leaders, who appeared to have the aforementioned list of collective-management skills, but they struggle to convince Agia farmers to support the reformed AAC. However, the accumulated debts and discontent stemming from past nepotism experiences of farmers as AAC members, combined with the fact that still no rule for exclusive delivery to the AAC exists, made few local farmers accredit the reformed AAC.

Agia packers/wholesalers appeared to lack both the interest to support a collective initiative and the collective-management qualities to inspire bilateral relationships with a stable production base of local farmers. Only Xatzisalatas Ltd recently organised successfully a farmer group following integrated apple production management, however both the pioneer idea and model for packer-farmer relationship appeared to be designed and strictly required by the multiple retailer rather than the packer.

Overall, a weak quality-orientation of farmers' production skills combined with a considerable shortage in marketing/entrepreneurial and collective-management competencies of Agia network actors were identified, which are intensified by the deeply rooted defensive attitude towards other actors. These deficiencies explain why both transactional and transformational performance outcomes of the Agia network are weak.

8.6.3 The Agia Network: Governance

The third network feature that impacts on performance is network governance. The higher the power distribution within network members and the accountability/formality,

the better performance is expected (Thorelli, 1986; Johnsen *et al*, 2008). Additionally, the existence of sufficient mechanisms for a) information/knowledge diffusion; b) conflict-resolution/trust-building' and c) monitoring/evaluating/planning, enhances the network's good performance (Grandori and Soda, 1995; Provan and Kenis, 2008). Since in Agia case, weak market performance was identified, such features of Agia network governance were not expected.

Regarding power distribution, for the three private enterprises the power is totally concentrated on the entrepreneur/manager, who neglects farmers' needs and interests. Farmers complain for an extortionate penalty for indiscipline in quality restrictions and discriminatory treatment on behalf of the packers. Even in the AAC where the cooperative members vote for the board of directors, the leaders used to exhibit a nepotistic behaviour, which abrogated the cooperative's democratic and fair principles. The AAC members lack opportunities to gain management and marketing expertise, so they have formed political cliques fighting to gain access to the power. Overall, the striking imbalance of power distribution in the Agia network, combined with the individualistic attitude of those on power, helps to explain why some network members feel neglected and show little discipline and loyalty.

As regards accountability/formality, the Agia network is characterised by loose inter-firm relationships based on verbal agreements, frequently violated by both sides, the packers and farmers. The lack of a contract, an obligation for exclusive supply, stable and clear specifications regarding the quality-rewarding system leaves room for opportunistic behaviour from both the packers and farmers. However, the latter are in the most disadvantageous position when they are paid for the delivered production either in unfavourable conditions or not at all, but they cannot take legal action against the packers, due to the lack of evidence. It also eternalises the problems of unsecured scale economies, huge quality variability and frequent farmers' switching among the packers. Due to the information asymmetry and quality uncertainty, the transaction costs are considerably increased and little value is added to the product. With the existing Agia

governance, it is almost impossible to identify who accounts for the weak transactional and transformational outcomes. Overall, the lack of accountability and formality of the Agia network creates confusion to its members regarding others' intentions, the proper product quality and attitude towards other network actors. This confusion is also reflected in the lack of a clear strategy to distinguish Agia apples.

For the three private enterprises, the only mechanism for information/knowledge diffusion and conflict-resolution/trust-building is the informal personal discussion between the packer and the farmer. However, having little faith in others' words, actions and commitment, both sides keep a defensive attitude by sharing little information in order to protect themselves and increase their bargain power. By being less open, they feel less vulnerable. Also, due to past experiences with the particular actor or others, each side doubts whether what is discussed or agreed will coincide with the actions following. For instance, the packers deem useful to avoid transferring information/knowledge to the farmers regarding the market conditions, because this information can reach their competitors or increase the farmers' bargain power. Because all these informal personal discussions are not recorded, each side can later alter their initial positions and report a different, more favourable version of the past discussion. Therefore, there is no evidence to justify the arguments of each side in case of a disagreement. Trust shocks occur, because Agia network actors vaguely blame each other. For the AAC, it was also found that the formal general meetings proved very insufficient, since those assessed (i.e. president, general manager) coincide with those used to fall into nepotistic behaviour and those provide the information needed for assessment. In conclusion, the Agia network suffers from disinformation and lack of trust, owing to insufficient mechanisms for information/knowledge diffusion and conflict-resolution/trust-building. This also explains the weak transactional and transformational outcomes.

Regarding monitor/evaluating/planning, there is no established mechanism, since the network is characterised by frequent farmers' switching among the packers. Therefore,

even if the packers are satisfied with the collaboration of the previous year with the farmers, they cannot plan to continue it next year, since they do not know which farmers will finally select them to deliver their production. As a result, the Agia network actors struggle to discover, effectively communicate, and deal with deficiencies in governance and competencies, so weak transactional and transformational outcomes occur.

The two farmer groups following integrated apple production, one initiated by Xatzisalatas Ltd and another by the current commanders of the AAC, differ in governance from the typical packer-farmer relation described above. The power distribution remains the same, however, the packers' individualistic attitude has been replaced by a deliberate effort to support a bilateral relationship. It is via regular informative meetings that the farmers become familiar with the higher production restrictions of the integrated apple production and the market challenges that the packer and the farmer are called to face in collaboration. To produce the certified product quality, the farmers need to cover extra costs and participate in the on-going training/administrative support offered by the packer. Therefore, both sides are encouraged to show commitment, communicate effectively their needs and build trust. These regular informative meetings give the packer the opportunity to resolve early any conflict and also monitor the group's progress. The packer-farmer relationship gradually was found to gain some formality and accountability, since the farmers obtained the "feeling of belonging" in a specific group and the packer felt stronger the commitment to treat fairly these farmers, rewarding their cooperative attitude. Overall, the integrated apple production created extra costs and needs, which neither the packers nor the farmers could face alone, so a close collaboration was needed to flourish. Such a bilateral relationship could not emerge from the existing governance, therefore the network actors were forced to introduce a novel governance. This introduction was justified by two reasons: (i) that the integrated apple production was an unknown production system and (ii) that for Xatzisalatas Ltd, a powerful customer, Carrefour-Marinopoulos Ltd, demanded product of certified quality.

Overall, the existing governance of the Agia network was proved insufficient to deliver stable scale economies and optimum product quality, mainly because of the lack of a contract, fair and clear specifications of the quality-rewarding payment system and the absence of obligations for exclusive supply. These deficiencies create confusion, which dramatically affects the inter-firm relationships. The observed loose network linkages partially result from the existing governance structure, however they reflect the deeply rooted perception of the Agia network actors that “less commitment and input to the network protects and benefits better the network member”. Due to past negative experience and lack of competencies, the Agia network actors struggle to imagine anything different than their individualistic approach towards the network, since they do not believe that long-term bilateral inter-firm relations can flourish. Therefore, the whole network governance is structured in a way that serves short-term unilateral relationships. However, a vicious cycle is created, because the existing governance structure increases the existing notable diversity in members’ profile and the shortage in their competencies. The case of the integrated apple production was exceptional, since the network actors perceived it as a completely different production method. A change in their attitude, perceptions and network governance was more accepted by Agia network actors, given the novel needs occurred.

8.7 Summary

This Chapter has reported the findings regarding the historical evolution of the Agia network and the factors influencing it, as well as the network’s current structure, performance and analysis of its key features.

Overall, the analysis identified the Agia case as exhibiting the weakest, most fragmented network relations, manifest in frequent switching between partners in the supply chain and a continuous entry and exit of packing enterprises. As a result, the network exhibited weak transactional and transformational outcomes. The physical and technological constraints appeared to leave leeway to actors to embrace opportunistic behaviour,

which the existing governance could not prevent, due to the lack of a contract, a quality-rewarding payment system and obligations for exclusive supply. Despite the unfair treatment of fragmented Agia farmers by the packers, efforts to establish a “countervailing power” network often failed, owing to the lack of pre-existing social cohesiveness. Evidence of how public funding upset the market balance and in the long-term encumbered inter-firm relationships has been provided. Weaknesses were also identified in terms of high profile heterogeneity and a considerable shortage in marketing/entrepreneurial and collective-management competencies of Agia network actors. The case showed that the lack of faith in their own capabilities and other actors’ intentions constitutes a fragile basis for collective action. Furthermore, the knowledge networks that the Agia actors used tended to be domestic rather than European in orientation, and were characterised by inferior flows of information. The Agia case illustrates how and why a vicious circle of lack of faith, commitment and success was created. Furthermore, it also vividly depicts the defensive attitude of actors to networking, how this attitude has been formed and its negative implications in long-term inter-firm relationships.

All the four case studies comprising the empirical research have now been presented in-depth individually. The Thesis now turns to presentation of a cross-case analysis, in which cross-cutting themes, issues and explanatory factors in SME network evolution and performance can be combined. The intention is to add further value to the empirical research results, and develop further a theoretical model of the phenomena under investigation. The cross-case comparison is the subject of the next Chapter.

Chapter 9: Cross-Analysis of the Case Studies

9.1 Introduction

After the systematic analysis of each case separately, this Chapter presents a cross-case comparison. The aim is to recapitulate core findings from each case, to identify important factors for SME network evolution and performance and to further develop a theoretical model conceptualising how network context, and features influence performance.

The Chapter begins by summarising the key results of each case. Then, the impact of contextual factors on network evolution, and network features on performance is described across the cases. The Chapter continues with a presentation of a revised theoretical model, which constitutes a key original contribution of the Thesis and concludes with a summary.

9.2 Overview of the Case Studies

In order to promote the undertaking of a cross-case comparison in the empirical research, four ‘instrumental’ case studies were selected, following methodological protocols described in Chapter 4 (Table 9.1). These cases possessed rival features regarding two selection criteria: (i) the level of processing involved in the end product (processed or not), and (ii) the apparent network market performance.

This case selection reflected two initial expectations. Regarding the first selection criterion, cases one (Blauel) and three (Zagorin) having apparently good market performance were expected to be characterised by strong inter-firm relations, particularly amongst farmers, in contrast to cases two (Kefalas) and four (Agia), which demonstrated apparently weak market performance. Regarding the second criterion, supply chain actors of both apple cases were expected to coordinate their activities more easily than the olive oil cases and be more market-oriented, because unprocessed

products require less transformation to turn raw materials into finished products, so fewer types of supply chain actors are involved.

Table 9.1: Case Study Selection

<i>Level of Processing</i>		<i>Apparent Market Performance</i>	
		Strong	Weak
	Processed Product (olive oil)	CASE 1: 'BLAUDEL ORGANIC OLIVE OIL'	CASE 2: 'KEFALAS ORGANIC OLIVE OIL'
	Fresh Product (apples)	CASE 3: 'ZAGORIN APPLES'	CASE 4: 'AGIA APPLES'

The analysis revealed that both expectations were not always borne out. The Blauel case had exhibited strong market performance, despite rather weak inter-firm relations appeared for farmers outside Saidona village. Furthermore, despite the longer supply chain for organic olive oil, strong vertical cooperation and market orientation were exhibited in the Blauel case, but not in the Kefalas case. The latter exhibited, in practice, weak performance, although it showed the strongest horizontal relationships among farmers compared to the other cases. For the Zagorin case, both expectations were borne out, while for the Agia case, despite the short length of apple supply chain, weak vertical cooperation and market orientation appeared.

Despite the fact that the Kefalas case revealed that horizontal cooperation alone does not secure strong market performance, all cases in the current research highlighted the salutary impact of socially cohesive horizontal relations amongst farmers on achievement of scale of economies, diffusing pioneer ideas and changing farmers' attitudes.

Following one of the research objectives, this Chapter cross-analyses the cases to identify contextual factors influencing network evolution, with emphasis on which factors overall encumber or reinforce inter-firm relations over time (Section 9.3). However, the preliminary results suggest that network features are factors influencing not only network evolution, but also its performance. Therefore, these network features are identified in Section 9.4. Finally, the chapter seeks to explain differences in performance of the four case studies by cross-analysing both their contextual factors and network features. In this way, a revision of the theoretical model of interplay between context and features of a SME network proposed in Chapter 3 (the NCFO model) is performed (Section 9.5). To conclude, two further factors influencing SME network performance, not previously identified in the literature, were discovered from the cross-case analysis and are discussed in Section 9.6.

9.3 Which Factors are Important to SME Network Evolution?

9.3.1 Theoretical Propositions from the Literature Review

As may be remembered from Chapter 3, three categories of contextual factors influencing SME network evolution were derived from the literature: market conditions, social cohesiveness, and external institutional support. Market conditions are divided into five sub-categories: (i) recognition and differentiation of product by end customers; (ii) unfair treatment of downstream actors; (iii) pressure of substitutes; (iv) quality certification scheme as a pre-requisite to market entry; and (v) physical and technological constraints.

Each factor was proposed to have an impact on the tendency of network actors towards tighter or looser cooperation over time. Table 9.2 summarises the original proposals.

Table 9.2: Description of Contextual Conditions Influencing SME Network Evolution and their Theoretical Propositions

1) MARKET CONDITIONS

* If a significant segment of end-users recognises and differentiates the product, this may enhance tighter cooperation to develop quality products and brands. So, this factor has a *positive* effect on SME network evolution.

* The pressure of well-differentiated substitutes and imitations is assumed to reinforce an existing collective action, by making its members to realise "the strength of unity". So, this factor has a *positive* effect on SME network evolution.

*The existence of very concentrated downstream channels or monopolies is assumed to inhibit the collective action of fragmented suppliers. This factor can have a *negative* effect on SME network evolution.

* *However*, when the fragmented suppliers are in a disadvantageous position, due to unfair treatment from the concentrated downstream actors, this is expected to have the opposite effect, because fragmented suppliers join to a "countervailing power" network. It can also have a *positive* effect on SME network evolution.

* It is assumed that the physical and technological constraints increase production and marketing costs, and by this way affect interfirm relationships, due to both information asymmetry and quality uncertainty. From the suppliers' side, quality brand-oriented processors are likely to adopt a vertical integrated form, "virtual" (e.g. contract agriculture) or real (e.g. cooperatives), rather than spot markets. From the distributors' side, these processors usually establish long-term bilateral relationships. This factor can have a *positive* effect on SME network evolution.

**However*, these physical and technological constraints are expected to weaken either real or "virtual" vertical integrated forms, if mechanisms to obstruct repeated opportunistic behaviour of some members are absent or inefficient in the collective schemes. It can also have a *negative* effect on SME network evolution.

*The participation in a quality certification system, as a precondition for market entry, is likely to encourage fragmented SME suppliers to adopt a vertical integrated form, either "virtual" (e.g. contract agriculture) or real (e.g. cooperatives). So, this factor has a *positive* effect on SME network evolution.

2) PREEXISTING SOCIAL-COHESIVENESS & COMMUNALITY IN INTERESTS/PERCEPTIONS

*These two factors enhance the emergence and sustainability of SME collective initiatives, providing that a capable leader exists. So, this factor has a *positive* effect on SME network evolution.

3) EXTERNAL INSTITUTIONAL SUPPORT

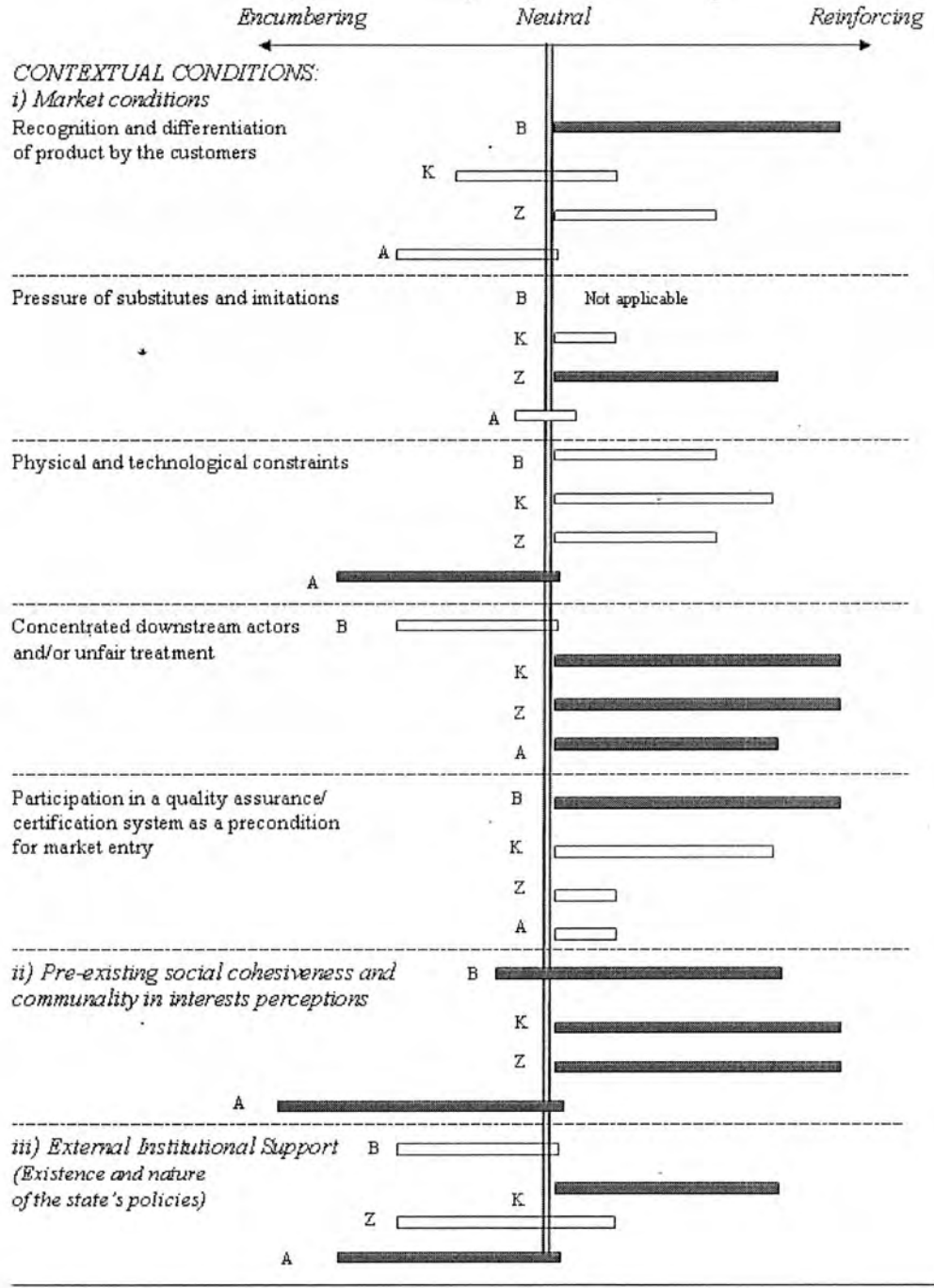
* The external institutional support is likely to enhance the emergence and sustainability of SME collective initiatives, providing that it respects SME network's autonomy and self-management, and promotes their flexibility and efficiency. So, this factor can have a *positive or negative* effect on SME network evolution.

9.3.2 Results from Cross-Case Analysis

Across the case studies, evidence generally supported the five proposals regarding the impact of market conditions on network evolution. However, whether strong inter-firm relations actually emerged and how sustainable this was, seem to depend on the interplay of these market-condition factors, explained in Section 9.3.3. Pre-existing social cohesiveness and communality in interests/perceptions was the only factor that played a decisive role in all the four cases. Moreover, it seemed to moderate the impact of the remaining contextual factors on network evolution. This finding makes sense, since high social cohesiveness indicates a pre-existing fertile ground for tighter cooperation. Figure 9.1 summarises the results on the impact of contextual factors on network evolution across the four cases and constitutes the basis for the analysis below.

The black colour of the bars indicates whether the contextual factor was decisive for the network evolution of each particular case study, compared to the remaining contextual factors. Longer bars also reflect higher impact on the network evolution. However, only if the bars are black, do they indicate that the respective factors' impact was decisive for the particular case study.

Figure 9.1: Contextual Factors Encumbering or Reinforcing the Network Relations in the Blauel (B); Kefalas (K); Zagorin (Z) and Agia (A) Case Studies



(i) Effect of Market Conditions on SME Network Evolution

Amongst the five market conditions, only the factor "*Concentrated downstream actors and/or unfair treatment*" was decisive for more than one case study, reflecting the strong impact of unfair treatment by downstream actors on the fragmented suppliers of the case networks. Having fumed over this unfair behaviour, the fragmented suppliers (i.e. farmers) considered seriously the option of establishing a 'countervailing power network', as evidence derived from the Blauel (Saidona), Zagorin and Agia cases shows.

The analysis showed that whether this thought of a countervailing power remained a 'wish' or was materialised, seemed to depend on past experiences of collective initiatives, existence of a leader and a critical mass and degree of pre-existent social cohesiveness.

In turn, downstream actors in the case studies usually reacted offensively to any 'countervailing power network' of farmers by making exceptionally attractive offers to entice farmers to violate their verbal agreements. This represented a challenge for the network. Findings from across all cases studies support these arguments.

The critical mass of farmers' collective schemes had two options: either give in or resist. When the first offenders of the critical mass' verbal agreements appeared, the remaining members of the critical mass faced the challenge whether or not to punish them in order to prove cohesiveness, commitment to the initiative, discipline and belief/confidence of 'being capable of making this collective scheme work'. The Zagorin and Kefalas critical masses isolated and punished any offenders, while Agia farmers did not. When all Agia farmers gathered and agreed on a common 'harder' attitude towards packers to ensure a fair price for all, some big farmers finally dishonoured that commitment to collective action and made personal agreements with the packers, who offered them enticing prices. This decreased the bargain power of the smaller farmers. Offenders avoided repercussions because their agreements were kept secret and the rest of the farmers had

no mechanisms to impose any penalty. Overall, the research confirmed the literature's argument that the unfair treatment of downstream actors encourages the establishment of 'countervailing networks' from the fragmented suppliers (Galbraith, 1980; Grandori and Soda, 1995; Masurel and Janszen, 1998). However, it added a further refinement, specifically revealing that this unfair treatment can also challenge the critical mass' dedication to their new-formed collective scheme at the early stages of its development.

Blauel Ltd is a special case, because it was a standardising/packaging firm, not a farmer, so farmers considered it as one more downstream actor. Therefore initially Blauel faced a defensive attitude amongst farmers, who could not conceive of a relationship different than being cheated. So, Blauel worked hard to convince farmers to let a fair relationship flourish. In contrast, Agia packers still struggle to build up mutual and loyal relationships with farmers.

For the impact of the second market condition factor "*Recognition and differentiation of product by end customers*", evidence from all cases supported the proposal that the existence of such recognition encourages the establishment of quality brand-oriented SME networks. However, only for the Blauel case this condition was decisive. Blauel came to a country where organic farming and exports of standardised product were unknown, but his links with Austria convinced him that there was a significant segment of end-users recognising and paying a premium for organic food, quality, label and origin. That the domestic consumers preferred conventional olive oil sold in bulk, inhibited Blauel from focusing on the domestic market. Blauel's success revealed the exporting potential of Greek olive oil, contingent on the introduction of organic practice, standardisation and quality focus. Similarly, the Kefalas farmers were motivated to collectively reap benefits from the significant segment of end-users abroad rather than domestically.

The Agia case confirmed that since end-consumers hardly recognised the Agia origin, low incentive existed for SMEs to form networks to improve product quality/brand. In

the Zagora case, there were more decisive factors than consumer recognition for triggering collective action, in particular, the unfair treatment by downstream actors, however the strong recognition of the Zagorin brand does now convince ZAC members of the unique benefits of collective action over working individually.

The third factor '*Pressure of Substitutes and Imitations*' played a significant role only in the Zagora case. Since 1992, Zagorin apples, as the product leading the market, faced increased pressure of both substitutes (i.e. Italian brands) and imitations. The pressure of substitutes strengthened the ZAC members' existing social bonds, conveying the message '*in order to survive, we must stay united*'. Furthermore, the research added a further refinement, specifically identifying the importance of the pressure of imitations misusing the origin/brand name. It forced the ZAC members to reconsider their decision of denying farmers in the adjacent villages the right to be cooperative members, and overcame their prejudices due to the lack of existing social bonds. The scope for this expansion was to '*secure the brand ownership*' by restricting access of domestic imitators to supplies of Zagorin apples from the adjacent villages' farmers.

The Agia case exhibited no serious problem of imitations. Neither did Blauel refer to any imitation issues. In contrast, Kefalas Ltd faced a few problems of imitations in the domestic market. This, coupled with negative implications of the factor "*Physical & technological constraints*", led Kefalas Ltd and other domestic SMEs to establish 'the Association for Greek Agrifood Products of Certified Quality' to limit the illicit trade. Moreover, the pressure of strong substitutes in a period of market slowdown resulted in a "disillusion" for Kefalas stakeholders regarding their enterprise's competencies. This strengthened their existing social bonds and commitment '*in order to survive, we must stay united and adapt our competences to the market environment requirements*'.

From the suppliers' side (i.e. farmers), the results confirmed that the fourth market condition factor "*Physical & technological constraints*" increased considerably product quality uncertainty and transaction costs, and made the quality-oriented

standardising/packaging firms prefer to adopt a vertical integration form governed by written rules and an interactive negotiation process, rather than spot markets. The vertical integration form could be 'virtual' (i.e. contract agriculture) such as the Blauel bio-program, or 'real' (i.e. cooperative organisation) such as Kefalas Ltd and the ZAC. In the Blauel, Zagora and Kefalas cases, the effectiveness of these forms was safeguarded by written contracts for exclusive supply, quality-rewarding payment systems, and isolation or paradigmatic punishment of members with opportunistic behaviour. In contrast, these safeguards were missing in the case of less quality-oriented Agia actors. Hence, the Agia case confirmed that SME networks without the appropriate governance structure leave room for the factor "*Physical & technological constraints*" to weaken not only the horizontal network linkages, but also the vertical collaboration between farmers and packers, by permitting repeated opportunistic behaviour, due to information asymmetry and quality uncertainty.

From the distributors' side (i.e. wholesalers and retailers), the results confirmed that Gaia Ltd, a quality/market-oriented downstream actor, made its relationship with Kefalas Ltd more bilateral, when it realised that Kefalas Ltd, being a well-organised supplying network, could absorb more of its transaction costs than small fragmented suppliers. The more that distributors recognised such an advantage offered by the network of suppliers, the greater their commitment became to create bilateral relationships. Indeed, both Blauel Ltd and the ZAC, enjoyed greater loyalty from their customers than Kefalas Ltd, because they had communicated a much clearer advantage of "scandal free reputation", market-orientation attitude and strong brand name to their distributors.

In addition, evidence from the Blauel, Kefalas, and Zagora cases corroborated the fact that standardisation units are keen to establish a long trustful relationship with distributors in order to reduce the risk of remaining with a large stock of unsold product or being paid on disadvantageous terms.

The fifth market condition factor "*Participation in a quality assurance/certification system as a precondition for market entry*" was decisive for the Blauel case. Organic farming was a less loose code of production practice, which required ability to monitor and certify quality. This forced Blauel to adapt the governance structure. Particularly, in order to establish the production base with the needed scale and efficiency, Blauel was compelled to understand and 'eliminate' the deficiencies of local farmers. His response was the Blauel bio-program, a contract offering strong support but imposing stringent application of regulations. To achieve the same level of professionalism, scale economies and internal coordination, the Kefalas enterprise was impelled to imitate the principles of Blauel's 'virtual' vertical integration. A similar forced adaptation of the governance structure was observed when integrated apple production management was introduced in both the Agia (i.e. Xatzisalas Ltd) and Zagorin cases, when stronger support and stringency in regulation application was introduced in the packer-farmer relationship.

Overall, the market conditions discussed above indeed influence Greek agrifood SMEs' network activity and the evolution of the emerging collective schemes, tending to either reinforce or dilute them. In fact, each of these market conditions seems to work as a 'pull or push' force to which the actors' responses vary, depending on the existence and impact of other factors.

(ii) Effect of Pre-existing Social Cohesiveness on SME Network Evolution

The factor "*Pre-existing social cohesiveness and communality in interests/perceptions*" was decisive for all four case studies. From the Kefalas case, it was evident that the critical mass selection by the leader relied mainly on communality in interests/perceptions, and that social cohesiveness seemed to be more a precondition rather than a guarantee for effective collective action. Practically, the leader needed to assess the compatibility between individuals' personality/behaviour and the philosophy of the particular network initiative.

All case studies bore testimony to the necessity of social cohesiveness for network (i) creation, (ii) expansion and (iii) maintenance. In terms of network creation, the evidence of Kefalas was presented in the previous paragraph. For network expansion, the Blauel case exposes the evidence from farmers of Saidona, Valinisti and Kefalas villages, where diffusion/application of innovative ideas accelerated due to high social cohesiveness, helping Blauel to reach scale economies and economic success easier. In terms of network maintenance, the Zagora case vividly depicts that despite the significant social-political changes in Greece within the last 45 years, it was the social cohesiveness that maintained the network, notwithstanding three initial disharmonious observations. First, social cohesiveness was narrowed to smaller groups (i.e. cliques) and expressed through communality in political beliefs, after the political disunion of the Greek civil war. Second, for a long time, there was prejudice against collective action, since it was considered as typical communist behaviour. Third, there were accidents of governments' political intervention in farmer cooperatives through political cliques. The Blauel and Agia cases also confirmed this discouraging political-social background for each SME networking initiative. Despite these three aforementioned findings, the ZAC was maintained. This happened because cliques were spots of higher 'within' social cohesiveness, but social cohesiveness was also strong 'between' different spots. In fact, social cohesiveness seems to reflect what has been recorded in the collective memory of network members from past collective action experiences. Particularly, the ZAC members had recorded that their personal economic interest and survival in past difficult periods had been tightly linked to the ZAC's existence and profitability. The interviewees expressed it as the notion of a "*common pocket*". Therefore, while later the ZAC members suffered from political intervention and cliques, they still showed strong commitment to the ZAC. In other words, strong cohesiveness between spots (cliques) prevented them from becoming independent from the ZAC.

In contrast, Agia farmers had recorded in their collective memory that the AAC and every other collective scheme were not possible to sustain due to the commanders' nepotism. Moreover, even before incidents of political intervention and cliques occurred,

Agia farmers had no past positive experience of collective action. So, now a deep suspicion on any collective initiative exists, reflecting the weak social cohesiveness both 'within' and 'between' different spots/social groups.

The Blauel case is a special one. Since Blauel Ltd is a private enterprise, the farmers see it as nothing more than an exceptionally supportive and fair downstream actor, a fact which explains why their vision does not always coincide with Blauel's objectives. This revealed a lack of 'between' spots social cohesiveness. Since there were only spots of strong 'within' social cohesiveness (i.e. farmer groups of Saidona, Valinisti and Kefalas village), farmers tended to want to become independent from Blauel's collaboration. In fact, the Blauel bio-program, a 'virtual' vertical integration form, increased the confidence/interest of farmers of Saidona, Valinisti and Kefalas villages to establish their own collective scheme, a real vertical integration form. Only Saidona farmers wished but not dared the independence, since they admitted being too old for such a demanding initiative. Therefore, for splintering network initiatives two preconditions were discovered: young age and existence of a person with leadership qualities. The Blauel bio-program both transferred 'tacit' knowledge ('school') of how practically to build up a sustainable collective scheme, and changed the collective memory in terms of farmers' capability to build a sustainable collective scheme. In contrast, fragmented farmers, i.e. those lacking 'within' social cohesiveness tend to decrease their interest in establishing their own collective scheme, i.e. 'countervailing power networks', when a downstream actor such as Blauel Ltd offers a fair, supportive and secure contract.

Overall, evidence derived from all case studies supports the argument that pre-existing social cohesiveness dramatically affects the evolution of SME networks. However, the research added a further refinement, specifically identifying the importance of distinguishing between 'between group' and 'within group' social cohesiveness, and the need to avoid of assuming that the vision, goals and priorities of these groups always coincide.

(iii) Effect of External Institutional Support on SME Network Evolution

Across the four case studies, three situations were observed concerning the factor “*External institutional support*” sometimes there was: (i) complete lack of support, sometimes (ii) existent but harmful support and sometimes (iii) existent and beneficial one. Each of these is now discussed in turn.

The complete lack of “*External institutional support*” made each studied network initiative vulnerable at its first stages. Particularly, the case study networks suffered from shortage of valid information/knowledge on production, standardisation, marketing and networking offered by public sources. They also suffered from gaps in legislation regarding fair funding eligibility and trade. This is illustrated by the following testimonies:

“The logic of maximising the absorption of the EU funding for the agrifood sector, predominated, which proved detrimental. To avoid it, first we had to have strict eligibility criteria, which would reward only those firms demonstrating selected features, that the government wanted to promote, e.g. efficiency. Second we ought to respect these criteria. For instance, when a subsidy for standardised olive oil was introduced by the EU, a series of standardising/packaging units were built, which closed the day after this subsidy stopped, due to inefficiency. At the same time, there was the State’s weakness to control the illicit trade in the domestic market. The combination of these two forces had a detrimental effect on the development of the healthy, efficient agrifood companies which had to face increased competition. On the contrary if only these healthy and efficient parts of the industry were funded, this would work as a real stimulus for the rest to develop.” [Magazine Editor]

“Greek olive oil companies learn about changes in the European regulations only afterwards, although there is a sufficient discussion period of 1-2 years before they are launched. The State does not inform agrifood firms in advance to give them the opportunity to prepare.” [Magazine Editor]

“There are not the mechanisms that could make the existing public structures work effectively. Greek agrifood SMEs need stable and effective public structures and mechanisms to rely on. For example, with regard to the Hellenic Foreign Trade Board (HEPO), agrifood firms need to know what the general strategy direction is, how national campaigns are organised, what the eligibility criteria

are, who has priority etc. These mechanisms need to have entity and duration, not constantly changing and confusing the agrifood SMEs." [Magazine Editor]

These deficiencies illustrated that the domestic agrifood business environment was neither resource supportive, nor fairly regulated. In contrast, it set challenges for the interviewed leaders both of the downstream side, i.e. the market, and of the upstream side, i.e. the suppliers. From the downstream side, the case study leaders had to find an alternative source of valid information/knowledge or protect themselves against domestic illicit trade. Both Blauel and the ZAC general manager reacted by establishing links with European knowledge/information exchange networks. In contrast, Agia and Kefalas leaders struggled with defensive domestic networks, whose actors seemed to abide by an unwritten game rule of "*holding back information or giving out wrong information as a market entry barrier*". The four case studies provided strong evidence for the existence of this rule-entry barrier.

Moreover, the lack of public support adjusted to the real needs of agrifood SMEs, combined with increased market pressure, worked as a push factor for SMEs to establish national collective schemes in order first to exert pressure on the government's policy and second offer some of the needed institutional support. Actors of the four cases had a leading part in the establishment of two associations, one for fresh fruits and vegetables and one for certified quality products. Both associations were good examples of bottom-up networking.

On the upstream side, the domestic agrifood business environment set a challenge for the quality-oriented actors, because the lack of "*External institutional support*" resulted in farmers' weak orientation to quality and customers' needs. Blauel Ltd, seeking to differentiate itself through quality and market-orientation, was forced to educate local farmers by itself, which "*cost money, time and strength*". In fact, the introduction of the Blauel bio-program was imperative, not a luxury. The other three cases confirmed a similar forced change to governance structure when quality certification was required, in order to improve local farmers' quality and market-orientation.

Regarding the existent and harmful “*External institutional support*”, the ZAC and AAC cases confirmed that past state policies harmed SME network development, such as farmer cooperatives, when they did not respect/enhance networks’ autonomy and self-management, but aimed to promote political intervention. This, in turn, encumbered collective schemes’ efficiency, flexibility and sustainability. Moreover, the eligibility criteria for funding that did not promote efficiency and sustainability proved destructive for the domestic market balance. Consequently, efficient but not funded SMEs faced vast market pressure exceeding sometimes their ability to cope. Interviewees from the Blauel and Kefalas cases vividly depicted this phenomenon.

Regarding the existent and beneficial “*External institutional support*”, the Kefalas case revealed that SMEs benefit by being engaged in ‘soft actions’ guided by a network facilitator such as the Peloponnesus Management Agency. For Kefalas Ltd, participating in international fairs or organising local ones as a member of the SME cluster of the Parnonas Quality Agreement, was recognised as the most efficient way for obtaining ‘tacit’ knowledge in entrepreneurial networking and marketing.

9.3.3 Effect of Interplay of Contextual Factors on SME Network Evolution

Having discussed the impact of contextual factors on network evolution separately, this section focuses on investigating their interplay. Drawing from results relating to market conditions and social cohesiveness, it is identified that past collective experiences, existence of a leader and a critical mass appear to be major influences on network evolution by determining whether the notion to establish a ‘countervailing power network’ remains a ‘wish’ or is materialised. For example, the Agia farmers lacked all these preconditions, therefore their notion remained a ‘wish’. In contrast, the existence of leaders, critical mass and successful positive past experiences in the Zagora case

permitted the 'wish' to be materialised. The Kefalas farmers believed that collective action was a feasible solution, only after experiencing the Blauel bio-program, in other words when they had experienced a successful incidence of collective initiative.

Evidence from all the case studies supports the argument that the stronger the social cohesiveness, the higher its countervailing effect over certain contextual disincentives for collective action e.g. offensive reaction of other market actors, and lack of vital information/knowledge. In brief, the strong "*Social cohesiveness & communality in interests*" encourages across tendencies to readily consent to and underpin a collective action as well as to deal with difficulties as a group. Network actors who easily give up are likely to be characterised by loose social cohesiveness. The positive impact of social cohesiveness is fundamental in the early stages of network establishment, where members' commitment relies more on beliefs/expectations of future benefits, rather than on facts and successful experiences of the particular network. In fact, the critical mass usually needs to believe first and then hopefully reap the promised benefits.

Despite the fact that social cohesiveness is an essential ingredient for SME network development, progress can be made also in cases of weak social cohesiveness under certain preconditions. The Blauel case revealed that a well-adjusted program to the farmers' real needs (e.g. satisfactory income, security, respect, education in both farming practices and market/cooperation oriented attitude) such as the Blauel bio-program, can indeed address the problem of lack of social cohesiveness up to a degree. However then, the program provider (e.g. Blauel Ltd) suffers from higher uncertainty and costs in money, time, strength than in cases where social cohesiveness exists. In other words, the research found that the existence of pre-existing social cohesiveness dramatically increases the speed, spread and effectiveness of farmers' attitude transformation. In Saidona village, thanks to pre-existing social cohesiveness, Blauel found the solid mass of farmers needed to introduce his pioneer ideas of organic farming and standardisation at such a scale to achieve economic success.

Strong social cohesiveness is an indication of a potentially powerful critical mass of members in a network. However, the research revealed that the extent to which an external actor can control such a group remains questionable. The Blauel case revealed that a solid mass should not be assumed to always serve an external actor's goals/interests e.g. Blauel Ltd. When Saidona farmers collectively decided not to adopt more of Blauel's innovative ideas or young Kefalas/Valinisti farmers decided to continue independently, then Blauel could not dissuade them from serving their own interests.

The cross-case comparison also demonstrates that the actors' orientation determines whether the influence of certain market conditions on the network evolution will be decisive or not. Actors more oriented to quality and the market, are keen on establishing quality-orientation networks, therefore contextual factors such as "*Recognition and differentiation of product by customers*", "*Physical & technological constraints*" and "*Participation in a quality assurance system*", have a decisive impact on network evolution. In contrast, for the Agia case, where quality and market orientation seem a less vital issue compared to the other three cases, the three aforementioned contextual factors did not played a pivotal role in stimulating tighter network interrelationships. Moreover, quality-orientation networks appeared to coincide in practice with vertical integrated forms, either 'real' i.e. cooperative or 'virtual' i.e. contract agriculture.

Overall, the cross-case comparison concludes first that all "*Market conditions*" working as push or pull factors, set challenges for both individual SMEs and SME collective schemes. Second, "*Social cohesiveness & communality in interests*" reflects the existing perception/record in the collective memory regarding two fundamental questions: (i) 'Does a collective scheme serve better our personal short and long-term interests than acting individually?' (ii) 'Are we capable of building a sustainable collective scheme?' This thesis, through the example of Kefalas, showed how favourable changes in collective memory could happen. Third, strong evidence supports that this collective memory is dynamically constructed. Finally, "*External institutional support*" can be

either an encumbering factor, adding more challenges for SME networks to challenges set by the market conditions or an encouraging factor, under certain preconditions, by providing opportunities to gain ‘tacit’ knowledge on how a sustainable SME network can be built up. In fact, this thesis aims to describe a favourable direction for the change of collective memory regarding the two aforementioned fundamental questions and to explain the factors leading there. The next section analyses network features influencing the network performance.

9.4 Which Factors are Important to SME Network Performance?

9.4.1 Theoretical Propositions from the Literature Review

Having discussed the contextual factors influencing network evolution, this section addresses the question of what impact network evolution has on the performance outcomes of individual SMEs and the whole network, in line with the third research objective. According to Human and Provan (1997), the performance of SME networks is assessed through transactional and transformational outcomes. There are three sub-categories of transactional outcomes: organisational credibility, access to resources, and financial performance. The transformational outcomes are defined as how the network participation changed the actor’s approach to work with others instead of alone.

According to the theoretical propositions described in Chapter 3, three key features of SME networks are suggested to have an impact on performance: (i) members’ profile, both physical and attitudinal; (ii) members’ competencies, of three types: production expertise, marketing/entrepreneurial skills and collective-management capabilities; and (iii) network governance in terms of five aspects: power distribution, accountability/formality, mechanisms for knowledge/information diffusion, mechanisms for resolving conflicts, mechanisms for monitoring/evaluating/planning. Table 9.3 below summarises the original theoretical propositions regarding the impact of these network

features on performance. The next sections draw together what the case study analysis actually found out about network features and performance in practice.

Table 9.3: Description of Network Features Influencing SME Network Performance and their Theoretical Propositions

<p><i>1) DIVERSITY IN MEMBERS' PROFILE</i> Low diversity and incompatibility in network members' profile, both physical and attitudinal, is expected to be a weak stimulus for innovation, but to reinforce network performance. (-)</p>
<p><i>2) SUFFICIENCY IN MEMBERS' COMPETENCIES</i> Production related capabilities, marketing and entrepreneurial skills together with collective-management capabilities affect network performance. If network members have a sufficient range of these competencies, according to their responsibilities, the network performance is enhanced. (+)</p>
<p><i>3) NETWORK GOVERNANCE STRUCTURE</i> A SME network is expected to perform well, if sufficient governance mechanisms exist to regulate the following five main aspects of collective action: (i) power distribution (ii) accountability and formality, (iii) diffusion of information and knowledge, (iv) resolution of conflict and trust building and (v) monitoring, evaluation and planning. (+)</p>

9.4.2 Results from Cross-Case Analysis

Across the case studies, the evidence yielded generally supported all the propositions regarding the impact of network features on performance. However, it was found that the impact on performance varied across sub-categories for each of the three key network features. Furthermore, the extent to which transformational and transactional outcomes were optimum, seemed to depend on the interplay of these factors (Section 9.4.3). Figure 9.2 provides a reminder of the performance outcomes of the four cases, whilst Figure 9.3 summarises how the features of the networks contributed to those performance outcomes.

(i) *Effect of Member Profile Diversity on SME Network Performance*

Regarding the feature “*Diversity in members’ profile*”, the Kefalas case had the most homogenous member profile, both physical and attitudinal, except for a few isolated offenders. This had a positive impact on both transactional and mainly transformational outcomes. The homogeneity stemmed from the careful initial selection of the critical mass of farmers by the leader, and the shareholders’ small number.

The Blauel case had some unavoidable heterogeneity in the physical profile of farmers, due to innate differences between those from Mani and Laconia, but a dramatic increase in the attitudinal profile homogeneity was observed over time. This homogeneity influenced positively both transactional and mainly transformational outcomes. Despite the large number of farmers supplying Blauel Ltd, the attitudinal homogeneity resulted from the careful initial selection of participants into the Blauel bio-program. Furthermore, Blauel’s intensive effort had a positive effect by transferring knowledge to farmers and transforming their attitude, in terms of quality and market orientation, professionalism, discipline, and reciprocal relationship between the farmers and Blauel Ltd.

Figure 9.2: Transactional and Transformational Performance Outcomes of Blauel (B); Kefalas (K); Zagorin (Z) and Agia (A) Case Studies

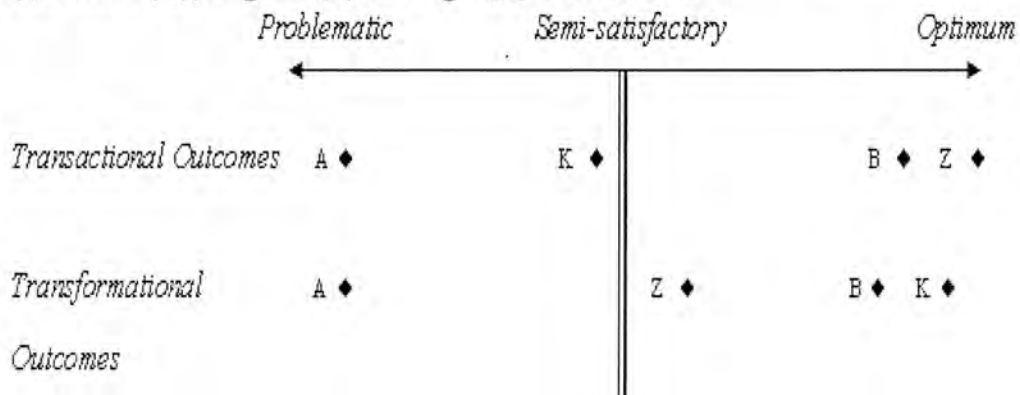
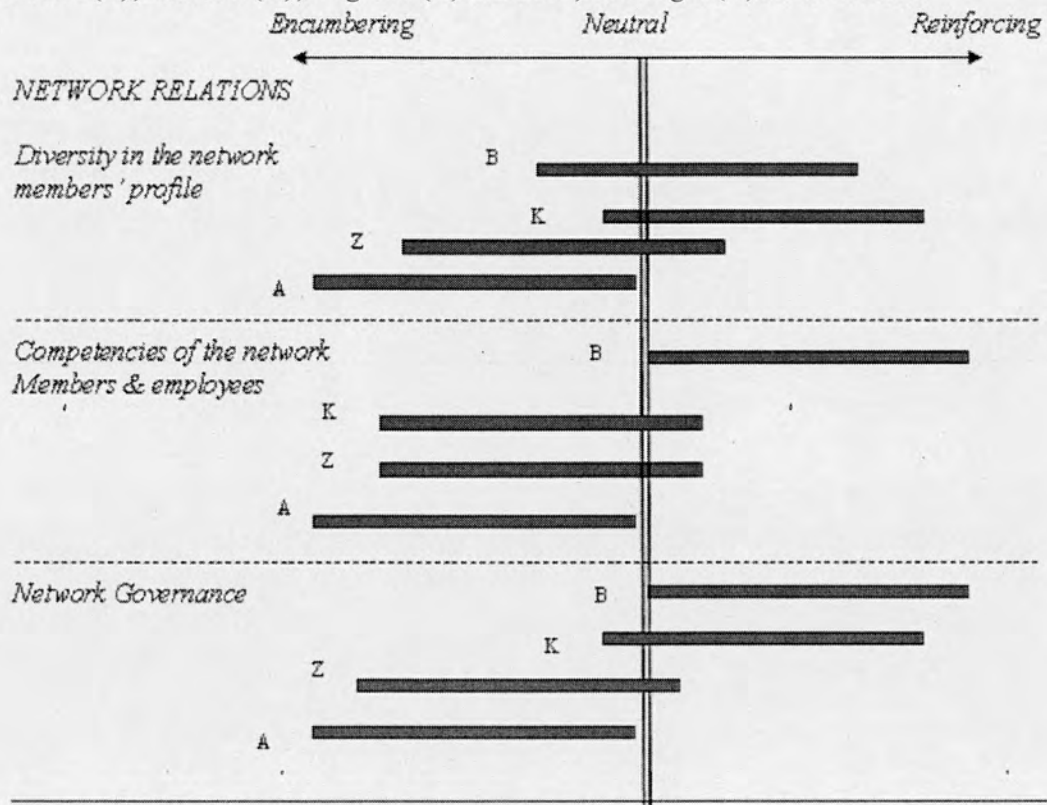


Figure 9.3: Impact of Network Features Encumbering or Reinforcing the Achievement of Transactional and Transformational Performance Outcomes of the Blauel (B); Kefalas (K); Zagorin (Z, the ZAC) and Agia (A) Case Studies



For the Zagora case, heterogeneity in both physical and attitudinal member profile was observed, intensified by the big number of ZAC members. This heterogeneity was directly linked to less than optimum transformational outcomes. However, homogeneity amongst farmers in terms of accepting the ZAC as the most beneficial option, being willing to remain cooperative members and obeying the cooperative rules, secured the ZAC's scale economies and high product quality. Therefore, this had a positive impact on transactional outcomes.

The Agia case was characterised by high heterogeneity in both physical and attitudinal profile of members, intensified by the big size pool of the Agia farmers. This high heterogeneity was directly linked to problematic outcomes, both transactional and transformational. However, high homogeneity was noticeable in the farmers' attitudes

towards distrustful packers and collective initiatives of other farmers. As shown in the Agia case analysis, farmers were switching between packers because they did not trust them, and for the same reason collective initiatives failed.

(ii) *Effect of Members' Competencies on SME Network Performance*

All three types of network member competencies (i.e. production; marketing/entrepreneurial skills; and collective-management) existed at a sufficient level for good performance in the Blauel case. This was in contrast to the Agia case, where the shortage of competencies was directly linked with weak performance, in terms of both transactional and transformational outcomes.

The Kefalas commanders had strong production and collective-management competencies, but insufficient marketing/entrepreneurial skills, which directly impeded transactional outcomes. The exact opposite was observed in the Zagorin case. Despite its traditional production skills and insufficient collective-management competencies, the ZAC had optimum transactional outcomes thanks to its general manager's considerable marketing/entrepreneurial abilities. The paradox with traditional production practices used by Zagora farmers was that they secured high quality, but with high costs.

Overall, the conclusion regarding the impact of competencies on network performance is that provided that production skills can secure high quality, it is only marketing/entrepreneurial competencies that are necessary for optimum transactional outcomes, as demonstrated by the Zagorin case. In contrast, both the Blauel and Kefalas case studies show that it is collective-management skills that are more crucial for transformational outcomes, as well as sustainability and high coordination within the collective scheme.

(iii) *Effect of Network Governance on SME Network Performance*

Regarding the impact of "Network governance" on network performance, the four cases demonstrated that the sufficiency of this governance directly depends on the leader's

collective-management competencies. Besides, this sufficiency appears to influence the diversity of network members' profiles, especially the attitudinal one, and the competencies of the network members/employees. On the one hand, evidence from the Blauel case reveals how network governance can reduce the negative implications of both high diversity in members' profile and deficiencies in their competencies. Practically, the network governance structure needs to be consciously adjusted to overcome these two weaknesses in profile and competencies, in turn resulting in a positive impact on both transactional and transformational performance. On the other hand, the Zagorin case illustrates how network governance, which ignores the issues of diverse profile and low competencies, results in a rapid deterioration of both members' profile diversity and lack of competencies, which consequently worsen the transformational outcomes. The ZAC's governance structure primarily aimed to secure scale economies and high quality, through sufficient accountability/formality (i.e. quality-rewarding payment system; obligation for 10-year membership and exclusive supply to the ZAC; and the cooperative's memorandum). Optimum transactional outcomes ensued from this governance structure. However, the ZAC's problematic power distribution, and insufficient mechanisms for information/knowledge diffusion, for conflict resolution/trust building, and for evaluating/planning, were directly linked with less than satisfactory transformational outcomes. The large number of ZAC members intensified these weaknesses of the ZAC's governance structure.

The Agia case further illustrates how problematic network governance can rapidly exacerbate both member heterogeneity and weak of competencies, and in turn deteriorate sharply the transformational outcomes. The Agia case underlines the importance of the existence of sufficient accountability/formality in network governance. To illustrate, due to the lack of a quality-rewarding payment system, and a obligation for minimum year cooperative membership and exclusive supply, the Agia case could not secure scale economies and high quality-orientation. Consequently, negative transactional outcomes occurred.

9.4.3 Effect of Interplay of Network Features on SME Network Performance

Overall, the case study analysis reveals that all three key network features are necessary to describe a SME network and explain its performance. Interestingly, these features are dynamic. However, in terms of relative importance to SME performance, results from this research suggest that collective-management and marketing/entrepreneurial competencies of the leader/s, or in other words, the constructor/s of the governance structure are the most important factors influencing performance. This happens, because the network governance structure as a tool cannot be more sophisticated than its constructor's (i) collective-management competencies, (ii) marketing/entrepreneurial skills and (iii) awareness level. Awareness here refers to actors' capability of assessing correctly their own competencies, and the weaknesses and strengths of the whole network governance structure, against the market challenges. It is noticeable that negative implications of the network members' diverse profile and lack of competencies can be alleviated by a network governance structure suitable to address these deficiencies. However, the precondition is that these constructors are capable of (i) identifying the network's problematic areas, including their personal deficiencies, (ii) designing a suitable network structure or (iii) at least discovering the right training for designing a sustainable structure. The Blauel, Kefalas and Zagorin case studies provide strong evidence for this argument. Especially, the Blauel case reveals the importance of the problem awareness' level of the leader/constructor. Particularly, the Blauel couple initially faced serious difficulties with the existing governance structure, then realised and admitted their deficiencies in collective-management and marketing/entrepreneurial competencies, so they had formal training. As a result, a pioneering governance structure was designed to enable flat hierarchy, flexibility and adaptability, through coordination and internal flow of information/knowledge. Practically, Blauel's employees were strongly motivated to improve self-expertise, and effectively communicate both their needs and expertise. In contrast, the lack of the Kefalas and ZAC commanders' awareness regarding deficiencies in both the network governance structure and own

competencies, led the whole network to suffer, having a detrimental impact on both transactional and transformational outcomes.

The minimum acceptable level of key features to ensure optimum transactional outcomes are the quality and market orientation combined with scale economies. To satisfy these preconditions, it is required: (i) considerable marketing/entrepreneurial competencies, (ii) production skills securing at least high quality, if not also low costs; (iii) accountability/formality⁶⁴, and (iv) a minimum level of attitudinal profile homogeneity, where actors accept the particular collaboration as the most beneficial option and respect its rules. The Zagorin case provided the evidence for this conclusion.

For optimal transformational outcomes, collective-management competencies combined with a sufficient network governance structure, especially designed to tackle problems of heterogeneous member attitudes and lack of competencies, are required. Furthermore, it is noteworthy that the larger the network members' number, the larger the challenge for the governance structure is, so the more sophisticated it needs to be (a fact acknowledged by the interviewees themselves).

Finally, a clear finding from research was that the governance structure of a cooperative enterprise or cooperative needs to be more sophisticated than that of a network coordinated by a private enterprise, because it should transfer 'tacit' knowledge of the three types of competencies to all those shareholders elected as cooperative commanders in the future. In other words, the network ought to be an 'internal school for leadership'.

9.5 Explaining SME Network Performance: Context and Network Features

Having analysed separately the results of the case study research on the impacts and

⁶⁴ Practically, efficient accountability/formality usually entails a quality-rewarding payment system, restrict obligation for certain-year collaboration and exclusive supply.

consequences of contextual factors and network features, the purpose of this section is to synthesise these insights to propose a theory of network evolution and performance. This section proposes a novel model, which constitutes a key original contribution of this Thesis.

9.5.1 Theoretical Propositions from the Literature Review

It may be recalled that in Chapter 3 numerous theoretical propositions relating to network contexts, features and performance were derived from the literature and combined in a tentative model ('NCFO' model). This model offered a summary of the propositions and was employed as a starting point for the empirical study. Figure 9.4 illustrates the revised version of the 'NCFO' model, following empirical research and suggested the interplay between the three components: network context, features and outcomes. The revised model, based on empirical analysis, adds an important refinement, specifically elucidating how the interaction of context and features of a SME network influence performance. Briefly, the principles of this figure are as follows: The context of a network appears to be a major influence on network's evolution over time both in terms of its features and performance. However, the current research expands this syllogism further by providing evidence that the *features* of an SME network are key to explaining variability in performance displayed by SME networks operating in a very similar context. Although overall network leaders and members are exposed to quite similar contextual push or pull factors, they perceive and respond differently to context, due to differences in their profile, competencies and existing network governance structure. The same contextual stimulus can work differently for different network actors. Some can perceive it narrowly as a threat, so they become defensive and isolated, preferring individual over collective action. Others can be inspired or forced to expand their networking/collective activity both in width and depth in order to reach/create new resources. Interestingly, the way in which the actors perceive the context, their position and power within it, are dynamically interlinked with their faith and own capability in networking. Therefore, in the current research there were cases

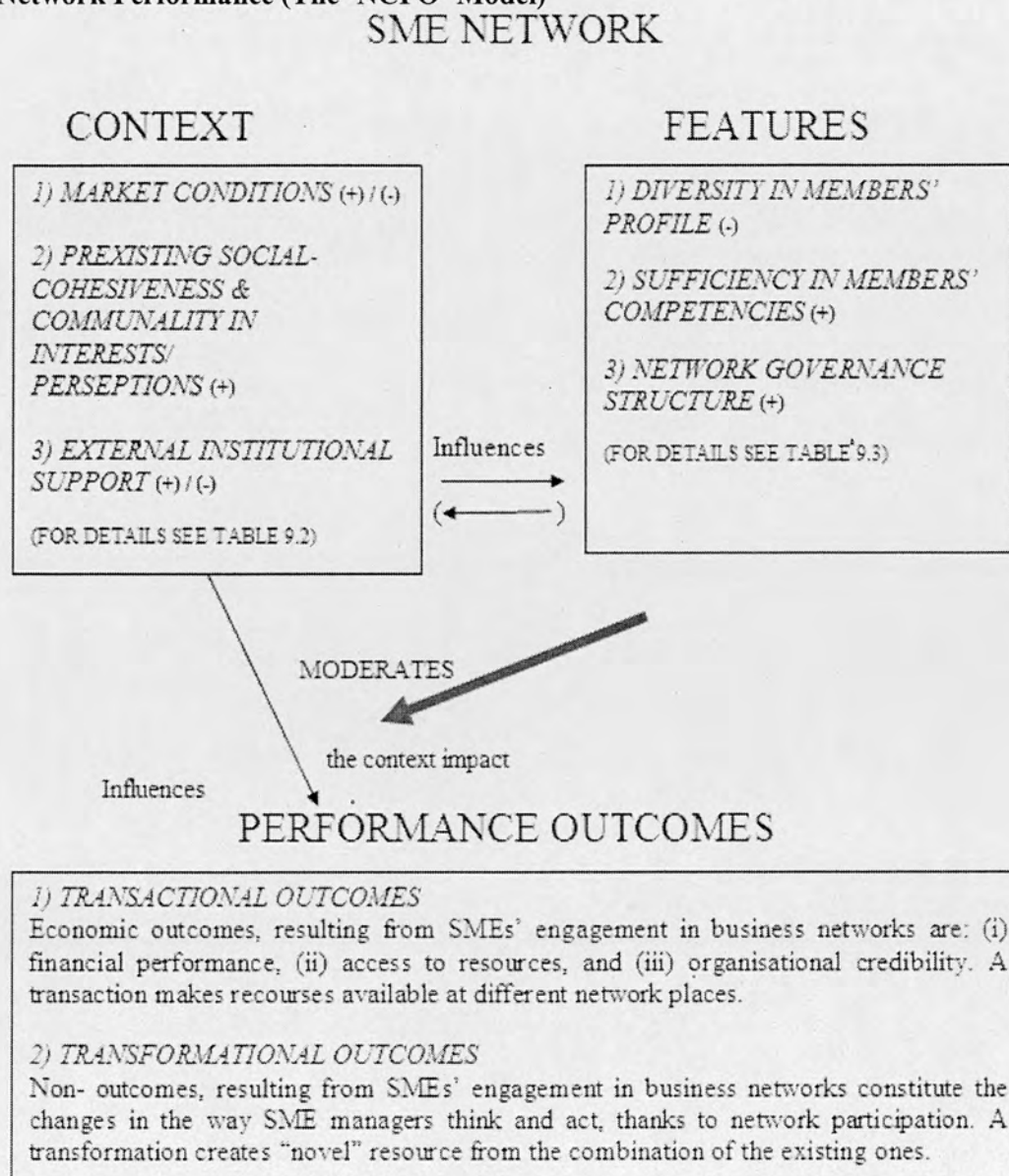
where the network actors responded to the challenges set by the context, through a network setting. Certain network features, such as the diversity in physical and attitudinal profile of members, their competencies and the governance structure, were found to alter the effect of the contextual factors on network performance. In other words, these features moderate the consequences of external forces on the network function and outcomes. Overall, compared to its initial version, the revised 'NCFO' model confirms the interplay of the three components, but further highlights the explanatory power of network features' moderating influence on the context's impact on performance (indicated with the blue arrow in Figure 9.4). Having presented the revised version of the 'NCFO' model derived from the literature, this model will be applied to each of the four case studies to explain, overall, the interplay of factors (i.e. network context and features) and their effect on performance both for individual SMEs and the networks as a whole.

9.5.2 Explaining the Performance of the Blauel Organic Olive Oil Network

Before Fritz Blauel's initiative, the existing situation for this network was characterised by *unfair treatment of farmers by downstream actors*, a lack of *external institutional support*, and an absence of a *domestic customer segment*, recognising organic and standardised product. The existing *network governance structure* was very loose, since olive oil suppliers were fragmented, and lacked *competencies* (i.e. no organic production/standardisation skills, no market knowledge, and no collective-management skills). Both the *physical and attitudinal profile of network members* were heterogeneous, particularly the fragmented suppliers lacked professionalism, quality orientation, and had a defensive attitude towards downstream actors. Consequently, weak *transactional outcomes* (i.e. sold in bulk, low product quality and recognition, low bargain power) and no *transformational outcomes* were observed.

This situation changed when Blauel, a leader with strong *collective-management and marketing/entrepreneurial competencies*, was attracted by the existence of *potential*

Figure 9.4: Revised Model of Effects of Context and Network Features on SME Network Performance (The 'NCFO' Model)



consumers seeking organic products of high quality. Having understood the implications of the participation in a quality assurance scheme, and of the physical/technological constraints, Blauel realised the need of a system with a governance structure designed

to reduce *diversity in network members' profile* and *lack of competencies* (the Blauel bio-program). The aim was to provide both *transactional outcomes* (i.e. secure price, scale and supply coordination) and *transformational outcomes* such as transforming the farmers' attitudes. Blauel tackled the hostile domestic business environment, characterised by the lack of fair trade/funding legislation and marketing/networking resources, through his own strong *marketing/entrepreneurial skills*. He sought information/knowledge/training to the *European exchange networks*. Both the innovation introduced by Blauel and performance outcomes were accelerated, when Blauel met solid critical masses of farmers at Saidona, Kefalas, Valinisti villages, where strong *social cohesiveness pre-existed*. However, the opposite happened when these critical masses abandoned collaboration or refused to adapt to all his innovative propositions. Figure 9.5 visualises how the NCFO model is applied for the Blauel present day network.

9.5.3 Explaining the Performance of the Kefalas Organic Olive Oil Network

Before the establishment of Kefalas Ltd, the Kefalas farmers participated by 'chance' in the Blauel bio-program (i.e. existence of *external institutional support*). Consequently, they recognised the *consumer segment* appreciating the organic, standardised product of high quality. In addition, they understood the implications of the *participation in a quality assurance scheme* and *physical/technological constraints*. Hence, the Kefalas farmers realised the need to imitate the principles of the Blauel bio-program, in order to establish their own sustainable collective scheme. As participants in the Blauel bio-program, the Kefalas farmers enjoyed both *transformational* and *transactional outcomes*. Particularly, their attitude was transformed towards market orientation, certified-quality and standardisation. They realised benefits of establishing reciprocal, bilateral relationships with the downstream actors and got used to the recipient role of knowledge/information transferred by the downstream actors. In terms of *transactional*

Figure 9.5: Application of the NCFO Model on the Blauel Case Study

BLAUDEL ORGANIC OLIVE OIL CASE STUDY

- **Old Contextual Factors:**

- ✓ Unfair treatment of farmers by downstream actors
- × Absence of a domestic customer segment differentiating the product
- × Lack of external institutional support (i.e. lack of fair trade/funding legislation and marketing/networking resources)
- × Pre-existing social cohesiveness only in one village (i.e. Saidona)

- **Old Network Features:**

- × Loose and problematic governance structure (fragmented suppliers)
- × Lack of competencies in quality production, market knowledge, and collective-management skills
- × Heterogeneous profile of farmers

- **Old Network Performance:**

- ⇒ Weak transactional outcomes (i.e. sold in bulk, low product quality and recognition, and low bargaining power)
- ⇒ No transformational outcomes

When Blauel came...

- **New Contextual Factors:**

- ✓ Existence of potential consumers seeking organic product in Austria
- ✓ Implications of participation in a quality assurance scheme
- ✓ Implications of physical/technological constraints
- × Lack of external institutional support (i.e. lack of fair trade/funding legislation and marketing/networking resources)

- **New Network Features:**

- ✓ A leader with strong collective-management + marketing/entrepreneurial competencies
 - Blauel sought information/knowledge and training from European exchange networks, not only domestic ones*
- ✓ A supportive governance structure (i.e. the Blauel bio-program) introduced in Saidona village
- ✓ Farmers with homogenous profile selected

- **New Network Performance:**

- ⇒ Strong transactional outcomes (e.g. secure price, scale and supply coordination)
- ⇒ Strong transformational outcomes (olive farmers increased their professionalism, quality orientation and stopped having a defensive attitude towards downstream actors)

outcomes, the Kefalas farmers added value to their product, served successfully a new market segment, enjoyed a premium price and security in payment.

The change in performance was thanks to the village president, a *leader* with strong *collective-management competencies* and *entrepreneurial skills*, for instance his personal network of domestic public/administrative actors. Having absorbed the principles of the Blauel program, he felt confident enough to establish a collective enterprise, Kefalas Ltd. Supported by the strong *pre-existent cohesiveness*, the leader found easily a solid critical mass of farmers (i.e. the 23 shareholders), having homogenous *physical* and *attitudinal profiles*. A fake market opportunity was decisive in bringing into effect the idea of establishing Kefalas Ltd. The offensive reaction of trade brokers (downstream actors), offering shareholders enticing prices to break the unwritten rule of exclusive supply to Kefalas Ltd (i.e. the factor of *unfair treatment by downstream actors*) set a challenge in the earliest stages of the Kefalas enterprise. Very few offenders arose and even these were isolated and punished. Thanks to the *collective-management capabilities* of the leader, Kefalas Ltd turned successfully the challenge into an opportunity to communicate the need for discipline and prove the effectiveness of the existing *network governance structure*. However, the leader struggled to tackle the *hostile domestic business environment*, due to the lack of external institutional support, due to the lack of fair trade/funding legislation and marketing/networking resources. This struggle also resulted from the leader's own weak *marketing skills*, because he joined only the domestic information/knowledge exchange networks, and lacked a personal network with trade actors. Later thanks to strong *pre-existent cohesiveness*, Kefalas Ltd managed to overcome cash flow problems and self-finance the enterprise, avoiding bank loans. Recently, Gaia Ltd, a market-oriented downstream actor started to prefer to cooperate with the well-organised Kefalas network, rather than a lot of fragmented farmers, to reduce its transactional costs (effect of *physical & technological constraints*). Also, the current Kefalas manager gained 'tacit' marketing and networking knowledge by participating in the "soft actions", part of the Periphery's network initiative "Paronos Quality Agreement" (i.e. beneficial *external institutional support*).

To address the serious implications of the lack of external institutional support and the physical & technological constraints, as well as the pressure of imitations, Kefalas Ltd became involved in the bottom-up networking initiative of establishing the “Association of SMEs for quality-certified products”. Despite the progress, Kefalas Ltd presents less than satisfactory transactional outcomes, since 90% of total production is still sold in bulk. Its transformational outcomes were almost optimum, because of the farmers’ transformation to shareholders of a collective enterprise. Particularly, the Kefalas shareholders gradually obtained a long-term perspective, appreciating both tangible and intangible benefits from collective action, prioritised collective benefits over personal ones, accepted discipline, meritocracy and lack of special treatment, and became aware of deficiencies in capabilities. Figure 9.6 visualises how the NCFO model is applied for the Kefalas present day network.

9.5.4 Explaining the Performance of the Zagorin Apples Network

The *unfair treatment by downstream actors*, the *social cohesiveness* and the existence of a leader with strong *collective-management* led to the establishment of the Zagora farmer cooperative. It had an homogenous *physical and attitudinal-members’ profile* and therefore, enjoyed transformational and transactional outcomes such as surviving in difficult times and increasing bargain power. The political intervention in farmer cooperatives during the dictatorship and later the decade of 80’s, caused dramatic changes in the ZAC members’ profile and challenged the existing governance structure, since accidents of prodigal administration and internal political conflicts occurred. Also, the political intervention narrowed down the social cohesiveness to groups with similar political beliefs. In the meantime, the offensive reaction of some downstream actors, offering enticing prices to violate the agreement for exclusive supply among the ZAC members, challenged once again the ZAC’s governance structure. Thanks to the existence of leaders with considerable collective-management competencies, the ZAC was revitalised after periods of defunction after dictatorship and the end of the 70’s. The current ZAC manager tackled the hostile domestic business environment through his

Figure 9.6: Application of the NCFO Model on the Kefalas Case Study

KEFALAS ORGANIC OLIVE OIL CASE STUDY

Before the establishment of Kefalas Ltd:

- **Old Contextual Factors:**

- ✓ Existence of potential consumers seeking organic product abroad
- × Absence of a domestic customer segment differentiating the product
- ✓ Strong external institutional support (i.e. the Blauel bio-program)
- ✓ Implications of participation in a quality assurance scheme
- ✓ Implications of physical/technological constraints
- ✓ Pre-existing social cohesiveness in Kefalas village

- **Old Network Features:**

- ✓ A supportive governance structure (the Blauel bio-program) introduced in Kefalas village
- ✓ A leader with strong collective-management + marketing/entrepreneurial competencies (i.e. Blauel)
- ✓ Relative homogeneous profile of farmers

- **Old Network Performance (as members of the Blauel bio-program):**

- => Strong transactional outcomes (e.g. secure price, scale and supply coordination)
- => Strong transformational outcomes

After the establishment of Kefalas Ltd:

- **New Contextual Factors:**

- ✓ Implications of participation in a quality assurance scheme
- ✓ Unfair treatment of farmers by downstream actors (except for Blauel Ltd)
- × Wholesalers offering farmers enticing prices to violate exclusive supply agreements to Kefalas Ltd, when those agreements were verbal
- × Lack of external institutional support (i.e. lack of fair trade/funding legislation and marketing/networking resources), later increased support from 'Parnonas Quality Agreement Initiative'
- ✓ Implications of physical/technological constraints, made market-oriented Gaia Ltd prefer Kefalas Ltd over other fragmented suppliers

- **New Network Features:**

- ✓ A leader with strong collective-management and entrepreneurial skills, but × insufficient marketing competencies (i.e. the village president), was later replaced by another leader with similar skills
 - Both leader sought information/knowledge and training only from domestic exchange networks, not European ones*
 - Very few offenders were isolated and punished*
 - Weak vertical relationships: only Gaia Ltd and only unilateral relationships*
- ✓ A supportive governance structure introduced, following the principles of Blauel bio-program
- ✓ Farmers with even more homogenous profile selected

Figure 9.7: Application of the NCFO Model on the Zagora Case Study

ZAGORIN APPLE CASE STUDY

1916-1964:

- ✓ Unfair treatment by downstream actors
- ✓ Strong social cohesiveness
- ✓ Existence of a leader with strong collective-management
 - => Establishment of Zagora Apple Cooperative (ZAC) in 1916
- ✓ Homogenous members' profile
- ✓ Sufficient accountability/formality
 - => Strong transformational and transactional outcomes

1965-Early 1980s:

- ✓ Investments in processing, packaging & logistics especially after 1981, but × strong political intervention in farmer cooperatives through legislation and funding (i.e. *external institutional support*)
 - => Challenged the existing governance structure which had × insufficient mechanisms for conflict resolution and × for diffusion of information/ knowledge
 - => Narrowing down the social cohesiveness to groups with similar political beliefs
- × Wholesalers offering farmers enticing prices to violate exclusive supply agreements to the ZAC
 - ✓ 2 leaders with considerable collective-management competencies, punished offenders and improved temporally ✓ the mechanisms for conflict resolution and ✓ for diffusion of information/ knowledge
 - => ZAC overcome challenges

Late 1980s:

- × Increased physical and attitudinal heterogeneity in members' profile when later all political groups joined the ZAC
- × Commanders with insufficient collective-management competencies
- × Insufficient mechanisms for conflict resolution and × for diffusion of information/ knowledge
 - => A series of internal trust shocks

1990s: Brand development and market expansion

- ✓ The current manager has marketing/entrepreneurial competencies
 - He sought information/knowledge and training from European exchange networks, not only domestic ones*
- ✓ Pressure of substitutes and imitations misusing the name (+)

Current Network performance:

- => Strong transactional outcomes, but
- => Suboptimal transformational outcomes, denoted by members' rigidity of views, resistance to structural changes, and lack of transference of tacit knowledge.

own strong marketing/entrepreneurial skills, by seeking information and knowledge to the European exchange networks. However, except for the leaders, the other commanders lacked collective-management skills, therefore designed weak governance structures to tackle the increased physical and attitudinal heterogeneity of members in the 80's. That period, all political groups joined the ZAC and high public funding was offered (i.e. external institutional support), which however abrogated certain inspection mechanisms and permitted political interventions. Given the large numbers of members, the existing governance structure manages to secure only scale economies and quality improvement, but the diversity in the ZAC members' profile and the deficiencies in capabilities deteriorate over time. This evolution threatens the ZAC's sustainability and flexibility in decision-making process. The pressure of substitutes and imitations strengthened the belief that surviving through the ZAC is the only option, but uncovered the lack of modern production capabilities, so the urgent need for structural changes for reducing production cost was revealed. The Zagora network presents optimal transactional outcomes, but suboptimal transformational ones, denoted by the members' rigidity of views, the difficulty to proceed with structural changes, the little transferred 'tacit' knowledge and the suspicion of prodigal administration. Figure 9.7 illustrates how the NFCO model is applied for the Zagorin apples present day network.

9.5.5 Explaining the Performance of the Agia Apples Network

The *unfair treatment of the downstream actors* made the Agia farmers wish to establish "countervailing power" networks, but because of the absence of a capable leader and *social cohesiveness*, there has not been a solid critical mass to resist the downstream actors' enticing offers, aiming to violate the farmers' unwritten agreements on exclusive supply or a minimum acceptable price. Due to their lack of *marketing/entrepreneurial skills*, both the farmers and packers struggle to tackle the hostile domestic business environment, characterised by lack of fair trade/funding legislation and of enabling marketing/networking resources. They rely only on the domestic defensive knowledge/information exchange networks.

The Agia Apple Cooperative (AAC) had a *loose governance structure*, permitting its commanders' nepotism to flourish and lacking an obligation for exclusive supply, long-term membership and quality-orientation. Besides, it is characterised by a heterogeneous member profile and serious deficiencies in members' capabilities. In the late 80's, high public funding (i.e. external institutional support) abrogated certain inspection mechanisms and permitted political interventions. This deteriorated the implications of the existing weaknesses in the ACC's governance structure, as a result, huge debts accumulated. Now, the ACC is a prime example of a failed collective action.

Both the vertical collaboration between the farmers and packers and the horizontal collective action such as the ACC, have been weakened dramatically by the implications of *physical & technological constraints*. Practically, these constraints leave room for the repeated opportunistic behaviour of some members, due to both the information asymmetry and quality uncertainty. However, the absence of a suitable *governance structure* to address effectively such a problem was observed. Particularly, the weak accountability/formality of the existing governance structure was noticed, since a written obligation for exclusive supply and long-term membership/collaboration as well as a quality-rewarding payment system were absent.

Consequently, problematic performance outcomes were observed. Regarding the transformational outcomes, the Agia farmers have a sneaky suspicion that the packers cheat them, do not show loyalty to any vertical collaboration or horizontal collective action, and seem to lack a market and quality orientation. So, they frequently switch among the packers. The unilateral relationships with the downstream actors were found to compromise the transactional performance outcomes, since the Agia farmers suffer from unsecured and unfair payment; low bargaining power; and little potential for adding value due to the low product quality. Figure 9.8 illustrates how the 'NCFO' model is applied for the Agia apples present day network.

9.6 Further Factors Influencing SME Network Performance

Inductively Derived from the Empirical Study

To date, much of the literature on SME networks has concentrated principally on the effects of horizontal cooperation on network performance, that is between members at one level of supply chain. In the case of agrifood SMEs, classically this is taken to be farmers. However, the cross-case comparison of the empirical research offers some key insights into the configuration of SME network relations beyond horizontal cooperation and their link to performance outcomes. Specifically, the analysis highlights the need to distinguish between *horizontal* and *vertical* dimensions of network relations, and points out in particular **the importance of the strength of vertical relationships within a network to good performance.**

Figure 9.8: Application of the NCFO Model on the Agia Case Study

AGIA APPLE CASE STUDY

- **Network Contextual Factors:**
 - ✓ unfair treatment of farmers by downstream actors
 - × absence of a domestic customer segment differentiating the product
 - × lack of pre-existing social cohesiveness
 - × Lack of external institutional support (i.e. lack of fair trade/funding legislation and marketing/networking resources, political intervention on farmer co-ops)
 - × Implications of physical/technological constraints
- **Network Features:**
 - × loose and problematic governance structure (fragmented suppliers)
 - × ACC: lack of accountability (no obligation for exclusive supply), mechanisms for conflict resolution and information/knowledge diffusion, low power distribution
=> its commanders' nepotism & a series of internal trust shocks
 - × lack of production, marketing/entrepreneurial, and collective-management skills
Actors sought information/knowledge only from domestic exchange networks, not European ones
Weak vertical relationships
 - × absence of a capable leader
 - × heterogeneous profile of farmers
- **Network Performance:**
 - => transactional outcomes (i.e. sold in bulk, low product quality and recognition, low bargaining power, unsecure and unfair payment of farmers)
 - => no transformational outcomes (repeated opportunistic behaviour, no loyalty, suspicion, lack of market and quality orientation, defensive attitude towards downstream actors, frequent switching between partners)

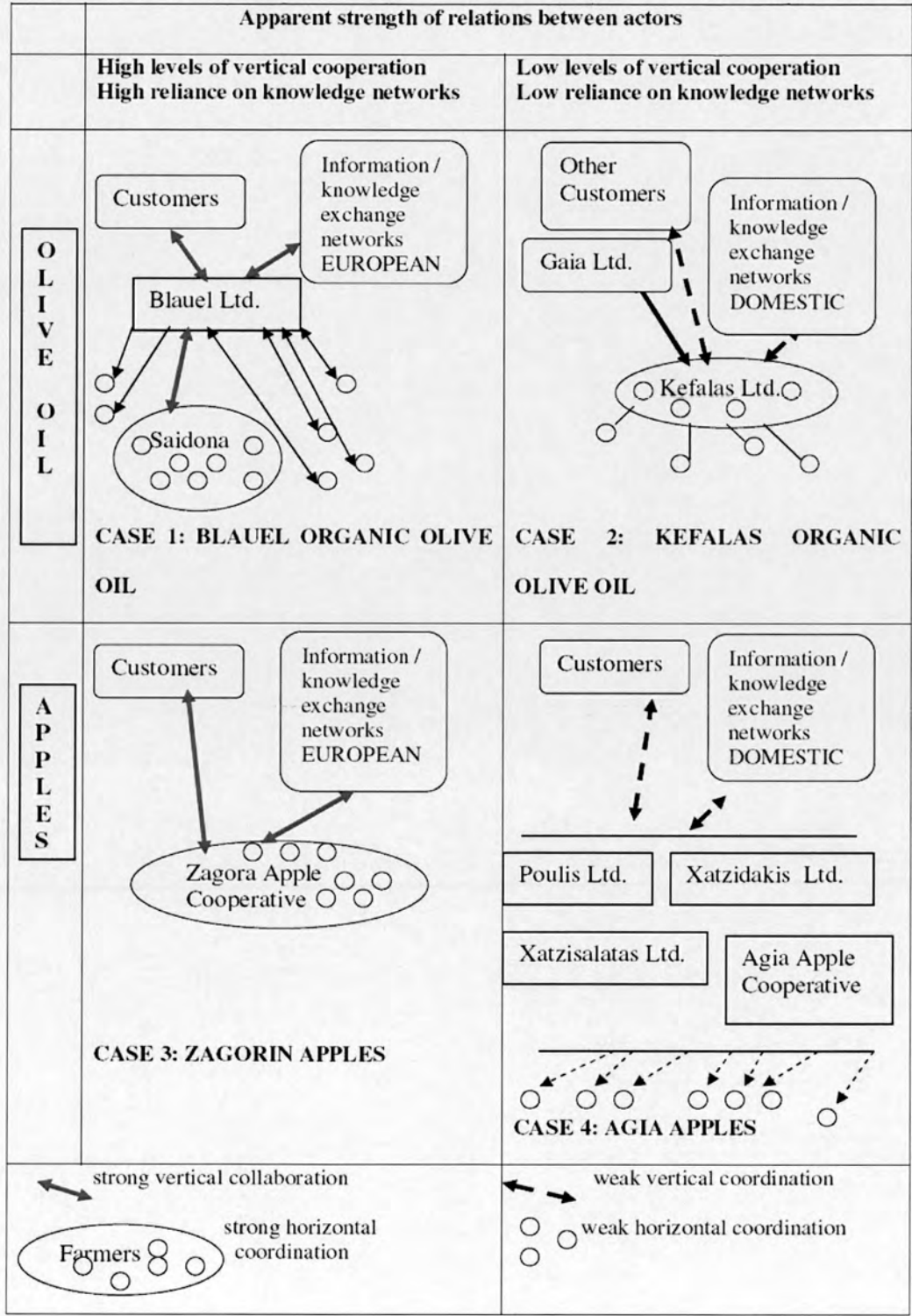
A second finding from the cross-case analysis is **the importance of openness of SME networks to external sources of knowledge about the market to good performance.** This could be described in Granovetter's (1973) terms as the use of 'weak ties' to build network performance. Particularly, the analysis emphasised how crucial is the nature of relations that network leader(s) have with actors and institutions external to the network. Both these additional factors influencing performance have been inductively derived from analysis of the data, and therefore are novel and not pre-defined in the literature. In fact, both these factors are manifestations of actors' strong entrepreneurial/marketing skills that allow them to have a broad network horizon/picture. In other words, actors with a high ability to recognise the strength of 'weak ties', and to build and exploit them, are more likely to create value by establishing respectively either vertical relationships within a supply chain or relationships with actors and institutions external to this chain. Figure 9.9 shows a diagrammatic overview of the nature of these two types of relations in each of the four cases.

9.6.1 The Role of Vertical Relations in Network Performance

Figure 9.9 clearly demonstrates the strong vertical relationships of the Blauel and Zagora cases, in contrast with the unilateral relationships of both Kefalas Ltd and the Agia farmers with their downstream actors. The strength of vertical relationships helps to explain the network performance. For example, in Kefalas, market performance was weak in spite of strong horizontal relations between farmers, whereas in both of the market-success cases - Zagorin and Blauel - tight vertical connections prevailed, even if there were some weaknesses at the horizontal level.

As a conclusion, not only can the strength of vertical relationships vary across the two dimensions within the same network, it may be that one dimension is more critical for performance outcomes, especially transactional ones. For the cases in the current research, it was the strength of the vertical, rather than the horizontal relations that seemed most important. It is also observed that strong horizontal relations at the farmer

Figure 9.9: Vertical and External Network Relations in the Four Case Studies



level help to reach quickly the needed scale of production, but it was strong vertical relationships that address the more sophisticated needs created by a market orientation such as coordination, and the need for elaborating the needs/ideas of other supply chain actors.

9.6.2 The Role of External Relations in Network Performance

Figure 9.9 clearly demonstrates that both market-success cases - Zagorin and Blauel - have established frequent international relationships with external actors encountered at international fairs and competitions, or through meetings of European associations such as EUROFRU. Despite the loose character of such relationship, such international assemblies take place against a backdrop of information/knowledge exchange activity. Both Blauel and the ZAC general manager are keen on being involved in this exchange. The Blauel case illustrates this, since here the bottling plant management showed willingness to share knowledge with other actors both within and outwith the chain, including end users and experts in the global organic product scene. This contrasts markedly with the packers in the Agia case, who were found to adopt a highly defensive attitude towards other actors involved in the Greek apple scene. This had a detrimental effect on the novelty and diversity of information flowing through the relationships in this case, placing the network in the position of market follower rather than leader. The results of this research add a further refinement to these observations, specifically identifying the importance of the geographic scale of external contacts and information gathering to market orientation in the case firms. Whilst in Kefalas and Agia, managers used domestic contacts and information sources, Blauel and Zagorin focused on European networks. The latter benefited hugely from this more international perspective because of the more advanced nature of markets for olive oil and apples in countries outside Greece. Managers would pick up the cutting edge techniques and methods - e.g. on integrated production management, quality assurance, relationship development - and employ them in their own networks. In contrast, the domestic information gathering in Kefalas and Agia, when it was performed, did not tap into this novel knowledge.

The aforementioned effects of external relations on SME network performance can be explained with reference to Granovetter's theory of network relations. As Granovetter (1973) indicated in his seminal article, it is often the 'weak' ties developed with key actors external to a network that strengthen the position and performance of the network itself. To create and secure their competitive advantage, Blauel and Zagorin managers relied heavily on the cutting-edge knowledge/information derived from the "backdrop" interaction with experts on a variety of issues. In this way, they scan the circumstances and tendencies in the global business environment of the particular sector of interest; anticipate future challenges and interactively elaborate sophisticated ways to respond. Consequently, they adapted earlier and more effectively than competitors to emerging market requirements. It is clarified that listening closely to those shaping opinions and tendencies such as quality gurus, European committee representatives etc., is fundamental for entrepreneurial SMEs to anticipate where the global scene turns its attention; what the future challenges the supply chain will be called to meet; and understand better the demands of the rest of supply chain actors. Besides, the power of these "weak" ties to reduce the entrepreneur's anxiety in dealing with risks was acknowledged.

"It is very important to work with the right degree of risk. If you do not risk, you go nowhere, but if you take too much risk, it is dangerous, and you also risk the jobs positions you have created. The right balance is one of my main concerns. When you start and your firm is too small then you have little to lose so you risk more, but the more your company grows, the more careful you become. However, then you have much more information derived from your network linkages, which support you, so you still take risk but you have your network to protect you. Now, I do things that seem more risky but there are not because I have all the information I need. When I started I made decisions then I could not fully understand their risk, due to lack of information." [The Entrepreneur-Leader -The Blauel Case]

Therefore, it is reasonable why Blauel and Zagorin managers prioritised gaining of novel knowledge about production and marketing, and creation of informal networks in the global scene.

9.6 Summary

To summarise, this Chapter has cross-analysed the cases and discussed: (i) overall, which contextual factors influence evolution of SME networks, (ii) overall, which features of a network are influential to its performance, (iii) how context and network features, in combination, explain the performance of SME networks.

In terms of contextual factors, the countervailing effect of social cohesiveness over contextual disincentives for collective action such as unfavourable market conditions or lack of external institutional support, has been demonstrated. Social cohesiveness reflects the existing record in the collective memory regarding the faith in collectivism and network members' capability to build a sustainable collective scheme. It is noticeable this memory is not static but dynamically constructed.

In terms of network features, the key findings state that negative implications of diversity in members' profile, and lack of competencies on network performance can be compensated by a network governance structure suitable to address these deficiencies. The most decisive factor for the success of this countervailing effort constitutes the collective-management skills, marketing/entrepreneurial competencies, and awareness level of the constructor(s) of the network governance structure. This is reasonable because the governance structure as a tool cannot be more sophisticated than its constructor. Additionally, for optimum transformational outcomes, a more sophisticated governance structure is required than that securing optimum transactional outcomes.

In terms of explaining how context and features, in combination, explain the SME network performance, the research revealed that the context influences the network evolution over time both in terms of its features and performance. However, the features of a SME network are central to any explanation of variety in performance displayed by SME networks operating in a very similar context. In fact, these features are found to moderate the consequences of external forces on the network function and performance outcomes. Evidence suggests a dynamic interplay between network context and features.

Finally, cross-case analysis identified two novel factors influencing SME network performance: the strength of vertical relationships and the reliance on relations with external actors and institutions, preferably from an international product scene.

The next Chapter of this thesis is the final one, and presents the conclusions of this thesis.

Chapter 10: Conclusions

10.1 Introduction

This thesis has comprised an investigation of how SME networks evolve, the reasons for this evolution, and the implications for performance, both in terms of individual SMEs and the entire network from the supply side as a whole. Throughout, the investigation has placed the phenomena within a social-economic context.

This thesis has introduced the topic and research objectives, reviewed the relevant literature, reported the empirical study, and described and analysed in detail the results. This Chapter aims to draw together the main findings. Furthermore, it contemplates the practical implications and the theoretical insights, which have been gleaned. Finally, limitations and avenues for future research are also discussed.

The structure of this Chapter consists of a first part putting the study into context and recapitulating the research objectives. The second part reports the main findings for each topic, including the network features, context, and performance. A third part describes the practical implications of the research for SME and network managers as well as policy makers. Finally, reflections are expressed on theoretical implications and limitations.

10.2 The Study In Context: a Recapitulation

The starting point for this investigation was the observation of increased popularity of networks amongst researchers and policy makers as efficient structures for stimulating the competitiveness, productivity and innovation of SMEs. This shift results from the perception that SME networks have positive outcomes that could not be normally achieved by individual organisations acting independently (Provan and Kenis, 1997). Yet these premises about unique capabilities of networks in creating economic opportunities for SMEs required further investigation. Empirical evidence suggested that

a highly diverse range of networks exist and their evolution and performance cannot always be anticipated. Consequently, the following key research objectives were raised for this PhD:

1. *To describe the key features and trace the evolution of a sample of SME networks, as whole entities, within the Greek agrifood sector*

In the light of absence of a uniform set of theory-based terms assessing different properties of SME network configurations (Grandori, 1997), this research sought key descriptive network features. The term of network configuration referred to both structure and governance. Furthermore, this research sought to trace the historical evolution of these network features and performance outcomes. Both a static and a dynamic description of SME network configurations are needed to capture the dynamic character of interfirm relationships, suggested by the literature.

2. *To identify the key factors influencing the evolution of these networks, both in terms of contextual factors and network features*

This involved an investigation of contextual factors influencing the network evolution and examination of the interplay between these contextual factors and network features. At the network level, emphasis was placed on (i) linking certain features of network configurations with certain outcomes, and (ii) explaining how network configurations shift or change over time in response to contextual or environmental circumstances, (or indeed, how they do not shift or change).

3. *To build a theory of how the context and features of these SME networks impact on the performance outcomes of individual SME members, and the networks as whole entities*

In view of the knowledge gap relating to SME network performance, in terms of how it can be explained, and what really influences it, the third objective of this research is to

build a theory of how the context and features of the SME networks impact over time on the performance outcomes of individual SME members, and the networks as whole entities. This objective is valuable academically because first the existing literature suffers from mainly discussing network impacts on individual SMEs, rather than the whole network. Second, although it stresses that a network can be ineffective and fail, as evidence for Greek agrifood SME networks shows, performance has not been linked with network evolution, which appears hard to anticipate. By considering the interplay over time between a network's features, context and outcomes, a theory linking these three components goes beyond the limited traditional focus of research on each component separately. Instead, it captures the dynamic interactions of particular endogenous (e.g. features) and exogenous (e.g. context) factors on network performance, and in turn enables practitioners to understand the tradeoffs and management challenges they have to face, their role and power, if any, in network evolution. The ultimate goal of this research is to identify key critical conditions for the existence/feasibility and effectiveness of agrifood SME networks.

Having set out these questions, the literature review provided a list of theoretical propositions regarding contextual factors influencing network evolution and network features affecting performance. These propositions were used as a starting point in systematically analysing the four case studies. The methods and results were presented. The cross-case comparison Chapter examined each of the aforementioned propositions, with a view to exploring the interplay of variables discussed, providing a summary of the overall conclusions from this study with respect to the above questions. The following sections elaborate further the conclusions derived from Chapter 9.

10.3 Conclusions Relating to the Description of SME Network Evolution

This research proposes that a network configuration can be satisfactorily described by three key theory-based properties: (i) the profile of network members, (ii) their

competencies, and (iii) the network governance structure. Each of these network features is explained under distinctive aspects derived from literature. Particularly, the diversity in profile of network members was analysed in terms of both their physical and attitudinal aspects. The sufficiency of competencies of network members was discussed regarding their production expertises, their entrepreneurial and marketing skills as well as the management capabilities of a collective scheme. Finally, the discussion about network governance structure comprised aspects of balanced power distribution and increased accountability/formality of the inter-firm relationships. Moreover, the effectiveness of existing mechanisms were discussed regarding the diffusion of information and resolution of conflicts among network members as well as monitoring/planning of the network activity.

Furthermore, the counterbalancing effect of the network governance structure over the negative implications of either members' diverse profile or/and lack of competencies on network performance, is a significant finding of this research. A network governance structure intentionally constructed to address such deficiencies appears capable of alleviating them. However, the competences of the constructor(s) is found the most decisive factor for its success, since the network governance structure cannot be more sophisticated than its constructor. Particularly, collective-management skills, marketing/entrepreneurial competencies, and awareness level of its constructor(s) directly influences the efficiency and effectiveness of the network governance structure. The governance structure of a cooperative enterprise or cooperative needs to be more sophisticated than that of a network coordinated by a private enterprise, because it should transfer 'tacit' knowledge of the aforementioned three types of competencies to all those shareholders elected as cooperative commanders in the future. In other words, these networks ought to work as an "internal school for leadership".

By tracing the historical evolution of inter-firm relationships of particular SME networks, this research confirmed their dynamic character, the path-dependency of

strategic choices of actors involved and the necessity of investigating network linkages against time and space (Crouch and Farrell, 2004; Provan *et al.*, 2007).

The findings corroborate the thesis of Halinen *et al.* (1999) that behind the network evolution, there is an on-going perception evolution process, taking place. This research provides evidence about how changes in perceptions are reflected in attitudes and behaviours regarding collaboration and networking. These changes constitute transformational outcomes. Specifically, strong barriers to networking are found to originate in prejudices held by the actors that there is no room for cooperation between 'them' and 'others', either competitors or actors from other stages in the supply chain or sectors. To overcome such barriers/prejudices in networking, an external actor is needed to get involved and introduce a different mentality in the traditional inter-firm relationships. This external actor could be an entrepreneur (such as was found in the Blaue case), or a network facilitator organising a "top-down" initiative (such as the Parnonas SME cluster in the Kefalas case). Facilitators can try to eliminate the 'the others' prejudice and accelerate the maturation of conditions for collaboration among actors typically categorised/thought as separate segments. Breaking the prejudices and discovering areas/ways for collaboration and exchange of 'tacit' knowledge between the actors, encourages the synthesis of novel ideas. This research empirically confirms the capability of SME networks to create new resources that are difficult to replicate via markets and hierarchies (Uzzi, 1997).

10.4 Conclusions Relating to Factors Influencing the Network Evolution

This research confirms the necessity to include network context in an investigation of network evolution (Provan *et al.*, 2007). The influence of context was proposed to be bestowed through the impact of three key contextual factors, derived from the literature: market conditions, social cohesiveness and communality in interests amongst members as well as external institutional support. "Market conditions" were explained under

distinctive aspects. Particularly, what was examined included: (i) the impact of product recognition and differentiation by end consumers, (ii) the pressure of imitations and well-differentiated substitutes, (iii) the existence of concentrated downstream actors who may also treat upstream actors unfairly, (iv) the role of physical and technological constraints, and (v) the impact of participating in quality certification systems as a precondition for market entry.

The findings of the cross-case comparison suggest first that all "*Market conditions*" set challenges for both individual SMEs and collective schemes, either as push or pull factors. Second, "*Social cohesiveness & communality in interests*" reflected the existing so far perception/record in network members' collective memory regarding their faith in collectivism and their own capabilities to build a sustainable collective scheme. Third, even more complex impacts of "*External Institutional Support*" were identified: on the one hand, it was found to be a destructive force when it entailed political intervention on collective schemes, but on the other hand, also capable of reinforcing collective action under certain preconditions. Particularly, if "*External Institutional Support*" transfers 'tacit' knowledge on how a sustainable SME network can be built up, prevents illicit trade and respects networks' autonomy and self-management, it can promote strong SME network relations. Otherwise it adds challenges to those set by "*Market conditions*".

This research also reveals the countervailing effect of social cohesiveness amongst network members over contextual disincentives for collective action, such as unfavourable market conditions or lack of external institutional support. Moreover, the stronger the social cohesiveness between members, the higher its countervailing effect. In brief, strong "*Social cohesiveness & communality in interests*" implies people's tendency to readily consent to and support the network initiative as well as to deal with difficulties as a group. That is why it is fundamental in the early stages of network establishment, where members' commitment relies more on beliefs/expectations of future benefits, rather than facts and successful experiences from the particular network.

Specifically, the critical mass usually needs first to believe and later hopefully reap the promised benefits.

Evidence from the research also finds that both the network actors' belief about '*what is feasible*' and commitment to particular network linkages/initiatives are dramatically influenced by expectations and past experiences. What was discovered is that there is a preconception about '*how far it can go*' that accompanies each inter-firm relationship or network initiative, which, in turn, has a multiplicative effect on attitudes and behaviours, either positive or negative depending on the original preconception. For example, actors with negative experiences of inter-firm relationships (such as Agia actors), tend to become more defensive and reluctant to share information with others. In contrast, actors with positive experiences (such as Fritz Blauel and the ZAC manager, who benefited from European information/knowledge exchange networks), tend to be more open, believe and invest in network linkages.

Many actors having similar experiences and sharing their beliefs about '*what is feasible*' and '*what is worth doing*' creates the collective memory reflected in social cohesiveness. This appears not static but dynamically constructed through an on-going trial and error process. Spots of strong "within" social cohesiveness such as the farmer groups of Saidona, Valinisti and Kefalas villages, believed the benefits of collective action, but lacked the confidence of establishing it after past effort with little success. The Blauel bio-program both transferred 'tacit' knowledge ('school') of how practically to build up a sustainable collective scheme, and changed the farmer's collective memory in terms of '*what is feasible*'. Consequently, in Valinisti and Kefalas villages, where farmers of young age and a person with leadership qualities existed, established their own collective schemes, independently from Blauel Ltd.

Overall, the main conclusion from the research is that to understand the nature of network evolution, the interplay between contextual factors and network features needs to be taken under consideration. This also explains why it was difficult to anticipate how

a network evolves and perform. The primary research here suggests that the context sets challenges to which SME networks can respond differently, given their own unique structure, governance and atmosphere among their members. Each contextual change uncovers existing inefficiencies in the network configurations, not previously realised since the demands were different, and sets a challenge for network members and managers to adapt. If they are capable of identifying the weaknesses and shifting from the existing network configuration that becomes increasingly ineffective, to a different one, then the network evolves and strengthens its performance, otherwise they struggle with the current network configuration. Therefore, it is difficult to guarantee the sustainability of networks under unfamiliar contextual conditions.

By taking on board the perspective of the interplay between context and network features, this research reveals the counterbalancing effect of factors influencing the network evolution and performance. It does not suffice to investigate only the influence of individual contextual factors and network features, because it seems not to determine what form the network actually takes and its performance. In contrast, it is the combinative effect of these factors - their '*resultant*' - that determines the success or failure of a network. In reality, what happens is that certain positive factors (i.e. contextual or network features) counteract the negative influence of other existing (or lacking) contextual or network factors.

Furthermore, this research suggests that in practice, contextual factors work as stimuli for change in a network, by giving incentive or barriers to inter-firm relations, however, their effect cannot be fully predicted until the features of the particular network configuration of interest are known. **Therefore, it is the network through its unique members' profile, competencies and its governance structure that determines whether the contextual factors would have a salutary or detrimental effect on its performance.** For example, the lack of "*External institutional support*" worked differently for both Fritz Blauel and the ZAC manager in contrast to the Agia actors. Thanks to their entrepreneurial and marketing skills, the actors in the former two cases

responded by establishing links with European knowledge/information exchange networks, which in turn helped them to build a strong competitive advantage. Agia actors lacking such skills, could not find alternative sources of knowledge and information, so the particular contextual factor had a detrimental effect for their performance. **What can be concluded therefore is that the network features moderate the consequences of contextual factors on SME network function and outcomes. Consequently, these features are key to explaining the variability in performance displayed by SME networks operating in a very similar context.**

Another intriguing finding was that for a dynamic, competitive and sustainable SME network, all the three network features are required to satisfy a minimum level, i.e. of low diversity in members' profile, of sufficiency in their competencies and the network governance structure. This syllogism can be illustrated through the metaphor of a barrel formed by wooden planks of different lengths. The water will only collect up to the level of the shortest plank. The shortage of a network feature (like the shorter plank), weakens the performance of the whole network (like the low level of water within the barrel).

Following this conclusion, this research links certain features of network configurations with certain outcomes. Particularly, a different combination of key features was identified to be required to a minimum acceptable level for ensuring optimum transactional, compared to optimum transformational outcomes as explained in Section 9.4.3. This explains why some networks achieve only transactional or transformational outcomes.

10.5 Conclusions Relating to Impact of Evolution of Network Context and Features on Performance of Individual SMEs and the Network as a Whole Entity

The framework for network outcomes proposed by Human and Provan (1997) was proved valid and useful in analysing the network performance as conveyed through the

interviewees' perceptions. Indeed, SMEs through network involvement could enjoy transformational and transactional outcomes, such as improved financial performance, access to resources and organisational credibility. However, since these outcomes were originated from collective efforts aimed at achieving economies of scale and scope, dysfunctions at the network level, such as inefficient collective management capabilities, entrepreneurial/ marketing skills and governance mechanisms, could influence dramatically the performance of the network as a whole entity and in turn the performance of individual SMEs. The existence of this two-way association between the two levels, individual and network, in practice, was confirmed by the vulnerability of collective brands such as Zagorin apples and Kefalas olive oil, to farmers not respecting high quality standards. Moreover, the case of Agia apples demonstrated the difficulty of individual firms to differentiate their product, when serious dysfunctions observed at the network level. Due to these dysfunctions, the Agia apples seem to still constitute a commodity, in the minds of both the retailers and end-customers.

On the question of how the message of *"we need to be innovative, market-orientated and cost-effective simultaneously"* is created and passed along the supply chain, this research suggests that such a message is more likely to emerge within vertical network linkages, rather horizontal ones, and to be conveyed backward in the supply chain. This can be explained with reference to the notion of the "strength of weak ties" proposed by Granovetter (1973). The horizontal network linkages were found mainly to determine how quickly this message of "cost effective and market-oriented innovation" is diffused and accepted among the actors within the same supply chain stage. For best performance results, such a message is assumed to require to be effectively diffused both "within" and "between" the different supply chain stages. For instance, what was observed from the Blauel case was that strong horizontal relations at the farmer level helped the network to reach quickly the needed scale, while strong vertical relationships covered those more sophisticated needs linked with a market orientation such as coordination, and the need for elaborating the needs/ideas of other supply chain actors. The conclusion deduced from this observation is that not only can the strength of relationships vary

across the two dimensions within the same network, it may be that one dimension, the vertical, is more critical for performance outcomes, especially transactional ones.

Another issue emerges from the findings of this research with respect to the novelty and diversity of information flowing through the relationships. This is the establishment of international, frequent relationships with external actors to the supply chain, met at international fairs, meetings and competitions, as happened in the Zagora and Blauel case. This proved to have a salutary effect on performance, placing the network in the position of market leader rather than follower. Granovetter's (1973) notion of the "strength of weak ties" can be also applied here. However, this research added a further refinement, specifically identifying the importance of the geographic scale of external contacts and information gathering to market orientation in the case firms, because of the more advanced nature of markets in some European countries.

The aforementioned argument of the existence of an ongoing perception evolution reflected in the network actors' attitude and behaviour⁶⁵, suggests that the current performance outcomes could be understood not only at their 'essential' level, their current market value, but also at another level, their 'projected' value. The latter refers to the expectations that the current outcomes create for the future of the particular or similar network linkages. The present-day outcomes became part of the experience of actors investigated, were used as a reference in future, and therefore, explained the path-dependency of the actors' strategic choices in the network. The current performance outcomes appeared to generate a preconception about *'how far it can go'* the particular or similar future network linkages, which was found to have a multiplicative effect on the attitude and behaviour, either positive or negative depending on the original preconception⁶⁶. When experiences of the current network performance outcomes were discussed among actors, they tended to share similar beliefs on *'what is feasible'* and

⁶⁵ Explained in Section 10.3

⁶⁶ Explained in Section 10.4

'*what is worth doing*'. These beliefs constituted a new record in their collective memory, which was reflected as social cohesiveness.

If the current performance outcomes of a SME network can indeed be considered as 'essential' and 'projected' aspects, this suggests that the network through its outcomes can influence the context. The impact on social cohesiveness was already explained. Regarding the impact on market conditions, Zagorin Apples as the market leader constituted a well-differentiated substitute for Agia apples, and revealed the existence of a segment of domestic consumers of high quality apples. In other words, the strong market performance of the network of Zagorin apples altered some of the contextual conditions for the Agia case. Similar observations were made in the Kefalas case, which had a developmental trajectory linked to that of the Blauel case. Particularly, the market success of Blauel Ltd revealed the existence of a consumer segment willing to pay a premium for standardised organic olive oil of high quality. This recognition and demand for the differentiated product was among the contextual factors encouraging the establishment of Kefalas Ltd. Besides, the Blauel bio-program through its good performance worked as a contextual force, an example of beneficial "*External institutional support*". In contrast, the detrimental effect of the political intervention in agricultural cooperatives, such as the AAC in the Agia case, constituted an example of harmful "*External institutional support*" that produced weak market performance for the majority of Greek agricultural cooperatives. This led to passing a new rationalised cooperative Law 1982/90 for agricultural cooperatives, that eliminated the harmful past practices. Overall, the network through its performance outcomes seems to shape to some degree the broad contextual factors, at least in a long term.

By observing the evolution of the four networks under investigation, negative outcomes of SMEs' networking involvement also were identified, for example the exploitation of information shared through inter-firm relationships and the problem of 'free riders'. However, one can raise the question whether these negative outcomes should only be considered as general negative externalities generated by networks (end outcomes) or

also as intermediate, temporal ones providing evidence that the current network configuration has become increasingly ineffective. Under this scenario, these negative outcomes signal network managers and members to shift to a different form more consistent with particular demands. If they are capable of identifying the weaknesses and making the proper changes in the network features, then the negative outcomes are temporal, otherwise they struggle with the current network configuration, which is likely to lead to the network failure. This syllogism proposes that temporal inefficiencies as network performance outcomes might be an unavoidable step in some cases for reaching an advanced network configuration. Hence, the emphasis is placed on the transformation process rather than on the intermediated outcomes.

10.6 Implications of the Research for SMEs, Managers of Networks and Policy Makers

10.6.1 General Implications

The Network Context, Features and Outcomes (NCFO) framework proposed links the network context with its features and performance. In what way is this framework a useful tool for network members and managers or policy makers? First, the NCFO framework offers a means of describing and assessing SME networks in terms of a uniform set of theory-based properties, easily applied on diverse modes of networks, such as industrial districts, supply chain networks, or collective brands for cross-sectoral products and services. In particular, the first property proposed by the NCFO framework, the profile of network members, assesses/predicts how opinions and goals may diverge, increasing the potential for conflict and limited commitment to common agreements. The second property, the network members' competencies, assesses/predicts whether they have the capability of identifying and amending the weaknesses and inefficiencies. Finally, the last property proposed by the NCFO framework, the network governance structure, analyses how in practice, power, distribution of benefits and costs, information/knowledge, monitoring/planning and

conflict have been arranged between autonomous but interdependent network actors. Therefore, it is evaluated whether the existing governance structure delivers the results/outcomes that meet the needs of SMEs involved in the network, given the current demands set by the context.

Second, the NCFO framework argues that the network members and managers play an active role by moderating via their choices the impact of context on network performance outcomes. So practically, they can influence whether the contextual factors would have eventually a salutary or detrimental effect on the network performance by eliminating their shortage of competencies and altering the governance structure. In other words, their response could even transform a disadvantageous context into a pioneer and beneficial activity. This transformational power on the hands of network managers appeared not to be always fully realised.

Third, the NCFO framework is also useful because it may be argued that the aspects of each of network features can be translated into an equal number of inherent challenges/tensions for network managers, which are related to the existing network configuration. These contradictory logics may apply to all network configurations, but the unique network features appear to determine to which side of each tension the network is most likely to stand. Thus, network managers could benefit from knowing in advance what challenges are going to be faced and which network features these originate from. The NCFO framework proposes that the role of contextual factors is to intensify or reduce these tensions inherent into the network configurations.

Finally, by employing this framework to their own SME network constituencies, policy makers could make more precise and appropriate choices regarding the “*External institutional support*” they offer. For instance, they could offer training to SMEs facilitating or managing a network on how to assess its weaknesses and construct the governance structure in such a way that could alleviate problems. Furthermore, they could place emphasis on making sure that the agrifood business environment is both resource

supportive and fairly regulated. In particular, public agencies could ensure that SME networks do not suffer either from a shortage of valid information/knowledge on production, standardisation, marketing and networking, or from gaps in legislation about fair funding eligibility and trade. Especially, funding eligibility criteria seem to crystallise a set of judgements on which performance attributes and strategic orientations are important. Regulators' choices on which organisations to fund appear to signal to SMEs and their networks which attributes are crucial for their success. Therefore, setting efficiency, flexibility and sustainability as prominent funding eligibility criteria could encourage applicants to prioritise these goals. It is important to highlight here, that both regulations and funding eligibility criteria seem to signal and stimulate a shift in behaviours and attitudes of SMEs and their networks, only provided that the State forces their restrict and fair application for all stakeholders. Otherwise, the unjustified exceptions and non-punishment of offenders signal that the violation of the regulation principles is acceptable. Finally, policy makers could realise the negative implications and address the problem of farmers' weak orientation to quality and customers' needs, saving downstream actors from the costs of educating farmers by their own resources. As a result, the whole supply chain is expected to be more commercially sustainable, entrepreneurial and less depended upon public funding.

10.6.2 Implications for Policy Support of Agrifood SMEs in Greece

The research conducted for this study was focused on the Greek Agrifood Sector. First, it was identified that this sector is an intriguing for investigation because although Greece has one of the largest numbers of registered farmer co-operatives in Europe, very few examples of strong networks exist. In examining case studies of SME networks in the Greek agrifood sector, two strong and two weak performing, the research has generated some important, practical implications for policy support of Greek agrifood SMEs. First, the Greek Government needs to continue keeping a 'neutral' attitude towards farmer cooperatives, which was adopted with the last cooperative Law 2810/2000. The rejection of some farmers' demand for the continuation of old

protectionism is fully justified, since this resulted in low competitiveness, efficiency and sustainability of most collective schemes (e.g. the Agia case) and the GAS in general. In fact, the State now avoids political intervention on collective schemes, respecting their networks' autonomy and self-management, and forces them to abandon their passive administrative-intermediary activities. Despite the less interventionist stance of government, the research confirms that crucial barriers to the development of farmer cooperatives exist, including little guidance and training for cooperatives and agrifood SMEs on how to apply new organisational solutions, resolve common market problems and fill their gap in skills and competencies. Given the sharp increase in market challenges, domestically and abroad, Greek cooperatives and agrifood SMEs appear to need the Greek State's "*(External) Institutional Support*".

The research findings indicate several roles that the Greek government can perform. First, the State is asked to play effectively its *regulating* and *signalling* roles, preventing illicit trade and setting funding eligibility criteria that only reward efficiency, sustainability and market-orientation. Especially, the latter implies that regulations and their strict application, signals to SMEs and their collective schemes what behaviours are acceptable, and what strategic choices make a difference. Therefore, rewarding only those firms justifying the criteria of efficiency, sustainability and market-orientation is expected to encourage a shift of goals/strategic choices of domestic agrifood SMEs and collective schemes towards this direction. Additionally, the research also indicates a *coadjutant* role for the State towards SME networks' efforts to build a competitive advantage, in which it also underperforms. Specifically, the State can either complement the SMEs' marketing efforts through promotional campaigns for commodities at national level, or offer consultancy services to SMEs and their networks (e.g. valid information through public research institutes). Finally, the *educating* role of the State in changing the wide-spread negative perceptions of Greek farmers and agrifood SMEs for the feasibility and effectiveness of the collection action is also discovered. Interviewees from all four case studies strongly supported the view that Greek SMEs and (at least) the commanders/leaders of collective schemes could improve their networking skills

through training in collective principles. The training aims to clarify that the past failures resulted from the violation of these principles, and under certain preconditions collective action can flourish in Greece as happens in agrifood sectors of other countries (e.g. France, Italy, Denmark). Therefore, taking on board the proposed NCFO framework, trained SMEs can go beyond the well-justified explanation in literature of the State's harmful political intervention, and recognise other equally crucial reasons for the collective schemes' failure, such as lack of competencies and problematic governance structure. This recognition will enable trained SMEs to take more responsibility and control over the evolution of network linkages. Apart from the transfer of explicit knowledge through training, research indicates that the State can also facilitate 'tacit' knowledge exchange on how a sustainable SME network can be built up, through the engagement of SMEs in regional and cross-sectoral network initiatives. Specifically, the research shows that despite their top-down nature, initiatives, such as the Parnonas Quality Agreement cluster, accelerate the maturation of the conditions for SMEs' cooperation across different sectors and the whole supply chains, with a view to advancing quality of services and products provided within a region. Ideally, as network facilitators, the public agents increase SMEs' awareness of both benefits of emerging synergies and challenges in interfirm coordination, provide solutions, but leave freedom to SMEs to decide their engagement. In this way, SMEs make informed decisions, act based on their motivation, overcome limiting perceptions, and 'learn by doing' networking and marketing within a controlled environment.

10.7 Implications for Theory Development in SME Networks

In undertaking a qualitative case study investigation of SME network evolution and performance, a key aim of the current research was to contribute to theory building and development, relating the findings to existing work. The most important theoretical contribution of this thesis is its focus on the dynamic interplay of three components simultaneously (network context, features and outcomes), as well as developing a novel theoretical framework (the NCFO framework). This is an original synthesis of factors

derived from careful scrutiny of the literature, which has then been subsequently refined through empirical research.

Additionally, the findings of the current research corroborate the existence and impact of social-embeddedness, suggested in the economic sociology literature, specifically that boundaries between a network and its context are blurred (Birkinshaw and Hagstrom, 2000) and that reality is socially-constructed (Berger and Luckmann, 1967). Consequently, in the current research the impact on network performance outcomes was found to be the result of contrasting forces, rather than the dominance of one of them and exclusion of all others. It was also problematic to distinguish these forces between pure contextual factors and network features, because those having a protagonist role in network evolution, were found to construct the meanings of both context and network features according to their past experiences and future expectations. This finding is valuable because it suggests that profound changes in protagonists' current networking experiences and expectations (e.g. an exceptionally good relationship with downstream actors) can dramatically influence the meanings attached upon their network linkages and context, opening new opportunities. In other words, it is implied that protagonists thanks to exceptional experiences could start interpret, and in turn, respond differently to contextual stimulus and alert their network's properties according to their new interpretations. Indeed, 'network', 'evolution', 'change', 'context of a network', 'impact of network evolution' were found to have multiple interpretations, therefore this thesis placed the emphasis on understanding them through the eyes of research subjects. Furthermore, these socially constructed meanings appeared to be constantly changing and overlapping, making the objective of discovering the objective 'truth' and the ultimate definition of concepts and phenomena under investigation unrealistic. However, trying to understand the multiple meanings given, how these were constructed and how these influence the choices and behaviours of network actors is the way suggested by this thesis for the investigation of network evolution phenomenon. Additionally, the current research shed light on vertical relationships within a network and also linked

them to performance, in contrast with the previously tendency of researchers to concentrate on horizontal network linkages.

10.8 Limitations of the Current Research

This thesis derives its value from the combined examination of the context, features and performance of a SME network, taking also a historical perspective. This practice led to some intriguing findings, however, the investigation is subject to a number of limitations, described below.

The *first* limitation identified is the lack of generalisations of conclusions due to the small number of case studies. Indeed, following the qualitative research approach, fewer observations compared to those included in a quantitative research were expected to occur. It is the nature of qualitative approach, which cannot produce results representative of all agrifood SME networks in Greece and Europe today. Following good practice in qualitative research, the researcher made a significant effort to enhance the transferability of findings, by providing a considerable amount of information during the presentation of each case study. Specifically, their historical evolution and context were elaborated, to enable the reader to judge the relevance of findings with other instances. For example, one needs to scrutinise the history and social-economic context, point out crucial differences between the cases presented here and those other instances, and assess the importance of these differences, before the relevance and applicability of this research's findings can be assessed. Also, "thick" descriptions of the phenomenon (multi-layered detailed descriptions) were given to facilitate the comparison between cases for assessing the transferability of findings. These "thick descriptions" included the examination of individual firms from all stages of the supply chain and from outside the chain, and the analysis of the entire network from the supply side under three dimensions, its structure, governance, and performance. Nevertheless, generalisations of findings are not possible, so future research could be contacted on evaluating the NCFO framework on larger samples with quantitative methods (e.g. surveys).

Drawing from the aforementioned criticism, the *second* limitation identified relates to the sample selection, due to the lack of probability representative samples. Indeed, following the principles of the grounded theory and theoretical sampling, that constitutes non-probability sampling, this thesis did not sampled persons or case studies, but concepts. Following good practise in qualitative research, the researcher was purposely looking for indicators of how concepts vary under different conditions. Particularly, the four selected case studies varied on a number of dimensions such as: the type of product, length of the supply chain, level of vertical and horizontal cooperation, level of reliance on external knowledge/information network linkages, location, legal form of the enterprise used as the focal point of research (i.e. private firm, cooperatives or cooperative enterprises), size of network, and the way the network was governed. Given the huge variety of parameters and dynamics of SME networks as social settings discovered by this research, the expectation of designing a research focused equally on depth and breadth of investigation seems very ambitious and almost unrealistic. As explained in the methodology Chapter, this thesis has an exploratory character, with emphasis on depth rather breadth, because it accepts the notion that it is better to address depth before addressing the breadth for understanding clearly a phenomenon so complex and socially- embedded that network evolution is. So further research could involve alternative sampling methods, such as probability sampling (e.g. stratified sampling), in addressing the 'breadth' of application of the NCFO framework.

The further discussion of this second methodological limitation addresses the selection of the particular case studies, particularly the basis on which these were chosen: the product type and the apparent networks' market performance. First, the selection was based on assessing the contribution of different agricultural sectors on the Greek economy, and on the empirical knowledge of an expert from the Agricultural University of Athens, (identifying "success stories" of the Baluel and Zagora cases). Therefore, the assessment especially of the apparent networks' market performance can be deemed to some extent subjective. Besides, quite different conclusions may have been drawn if

SME networks from other sectors, or even multi-sector network initiatives, also from other countries had been selected. Besides, all networks studied here had emerged from 'bottom-up' and voluntary networking processes, excluding 'top-down' and mandatory cases of SME networks. Following good practice of qualitative research, the researcher tried to eliminate this impact, by selecting a 'typical' case of the Greek agrifood sector (i.e. the Agia case study), having weak apparent market performance, and contrasting it with 'extreme' cases such as the rest three cases studies. These 'outliers' were expected to reveal crucial factors making this difference. Furthermore, the validity of the judgement on apparent market performance based on external evaluations during the case study selection phase, was later tested, by using more detailed internal assessments. Nevertheless, it can be argued that the used sampling frame impacted on findings, so caution in interpretation and generalisability of conclusions is again required. Also, further research could involve alternative sectors to the agricultural sector, or even multi-sector network initiatives, and include 'top-down' and mandatory cases of SME networks.

The *third* limitation of this investigation results from the particular macro-environment forces shaping the historical social-economic-political context of the Greek agrifood sector. The Greek government's extensive intervention with its well-documented negative implications on farmer cooperatives, from the literature constitutes a strong reason for expecting agrifood SME networks to follow different developmental trajectories in countries where the government's intervention was almost absent (e.g. the UK) or had a positive impact (e.g. France and Italy). Therefore, extrapolations from this research's conclusions, regarding the prediction of how a particular SME network would actually evolve, ought to be made with caution. Further research on the NCFO framework could be conducted in other European countries regulated by the CAP legislation.

The *fourth* limitation of this investigation results from the very limited number of interviews conducted with retailers, especially for the two olive oil cases (i.e. none for

the Blauel case and only one domestic multiple retailer interviewed for the Kefalas case study), and the lack of interviews with end consumers. Blauel's customer base is located abroad, as happens also with the biggest part of the Kefalas customer base, so resource limitations and difficulties in gaining access for interviews with foreign multiple retailers resulted in this limitation. With regards to the lack of interviews with end consumers, the reasons were the large scale and geographical spread of population as well as its unknown composition, therefore all different assumed attributes of consumers in the domestic or foreign market were considered very difficult to be identified, anticipated and included in a small sample used by this research due to resource limitations (e.g. time, money). Additionally, it was deemed that interviews with multiple retailers, who do regularly their own marketing research, could give a good indication of end consumers' perceptions on the products under investigation. The behaviour of multiple retailers to the upstream actors in each of the four case studies was expected to reflect to some extent the preferences and needs of end consumers (e.g. demand for certified quality or value for money), given the retailers' high market orientation. Nevertheless, it can be argued that the used sampling frame impacted on findings, so caution in interpretation and generalisability of conclusions is again required. Further research could involve end consumers and a greater number of retailers.

However, a general comment for the contribution of this research against the criticisms described above, is that the purpose was to develop a uniform framework for describing a SME network and its evolution, through some key and abstract elements, particularly the network context, features and performance, which are always present and seem necessary for the analysis, irrespectively the particularities of the case studied, e.g. country, policy, network actors. It is argued that the NCFO framework proposed is a powerful analytical tool for practitioners and policy makers exactly because of its ability to deal with and analyse variations in nature and status of the network context, features and performance. Such variations were anticipated to occur due to differences in countries, policies, profile of network members, levels of social cohesiveness, market conditions, network governance structures, goals of networks, network members'

perceptions, attitudes and behaviours. Therefore, the development of NCFO framework placed emphasis on identifying the minimum number of necessary attributes/variables to describe a SME network and its evolution, rather than on determining casual relationships between these variables. Moreover, each of these variables was a theory-based attribute derived from the literature. The reason for this placement of emphasis was frequently stressed in the thesis. Particularly, each SME network appears to have unique characteristics and its evolution is better explained from the 'resultant' of contrasting forces, such as individual contextual factors and network features, rather than from examining casual relationships for each of these forces. Besides, the meanings attached to the nature and impact of these forces were found multiple, socially constructed and constantly changing, an observation which made the extrapolation of absolute assertions about causal relationships require caution.

10.9 Avenues for Future Research

The discussion of key limitations of this investigation leads to suggestions for extensions of the current research, whose benefits described below in further detail:

First, future research could involve conducting similar studies in different agricultural sectors and countries. This could allow for more detailed analysis of the differences originated from the nature of product and variations in applied policy (i.e. level and impact of "*External institutional support*"), levels of social cohesiveness, and market conditions. The impact of those different contextual forces on the way SME networks are structured, governed and evolved could be assessed. The network features and outcomes displayed across a different range of contextual conditions would be observed, providing support to the notion that the NCFO framework constitutes a uniform explanatory tool, easily applied across sectors and counties.

Second, the current research could be expanded into the investigation of multi-sectoral SME networks, such as agri-tourism schemes or the case of a regional collective brand, imposing quality standards. This allows for discovering the difficulties in network

establishment and management originated from the diverse background and orientation of networks actors belonging in different sectors. It is common that these multi-sectoral SME networks to be the result of 'top-down' network initiatives organised by private or public developmental agencies. The lack of 'bottom-up' network initiatives in these cases usually indicates the absence of inclination of network actors to consider the multi-sectoral collaboration as a feasible, sustainable and profitable solution. This extension of the current study will give us a fuller understanding of the difficulty, which an external actor faces trying to accelerate the maturation of conditions for collaboration among network actors traditionally acting individually. This difficulty can also result from the suspicion of network actors against the intentions of this external actor, especially if it is a private firm (i.e. how it will benefit?). However, the investigation of 'top-down' network initiative is expected to give us a clearer picture of how certain factors practically influence the network evolution, because these external actors consciously observe, plan and exert influence on the acceleration of maturation of inter-firm relationships towards a pre-decided direction. In other words, they are practitioners who consciously try to manage the network evolution. Moreover, the usefulness and applicability of the NCFO framework could be assessed by these external actors facilitating 'top-down' network initiatives.

Third, a final avenue for further research after examining the validity of the NCFO framework in other sectors, countries and types of networks, could be the complementary use of the quantitative research methods. In practice, quantitative research would place emphasis on measuring the concepts, verifying their causal relationships proposed through the qualitative theoretical propositions and increase the generalisability of findings.

10.10 Closing Statement

The objective of this thesis was to investigate the dynamics and interplay between contextual factors and network features and their role in SME network evolution, with a view to building a theory of how context and features affect SME network performance

outcomes. The case study evidence suggested that contextual factors work as stimulus for change, but it is the network through its unique members' profile, competencies and its governance structure that determine whether the contextual factors would have a salutary or detrimental effect on its performance. Consequently, these features are critical to explaining the variability in performance displayed by SME networks operating in a very similar context. In practice, this suggests that network members and managers play an active role, as through their choices, they can moderate the consequences of contextual factors on SME network function and outcomes.

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APPENDIX I – Comments on Footnotes & Quotes

Chapter 2

Comment for footnote 18:

The Changes introduced by the 'For the Restoration of the Democratic Order in the Cooperative Organisations' Laws 1982, '83 and '85 were: (i) introduction of the principle 'one person-one vote', irrespectively of the cooperative shares and of an electoral system of proportional representation and party list instead of a single ballot; (ii) uniform organisational structure in farmers' unions, to which were allocated financial resources and public authority to issue official proof of farmer's professional identity, one of the preconditions for agricultural subsidies, called 'decentralised corporation'; (iii) compulsory consolidation of second grade, county level, cooperatives, so only one Union of Agricultural cooperatives per county, and (iv) the replacement of audits provided by the ATE bank with auditors provided by the Ministry of Agriculture. (Patronis, 2002)

Comment for footnote 19:

Some examples constitute the collection of and payment for agricultural products beyond subsidised from the EU quota, the payment of prices to the farmers higher than the economic conditions of the cooperatives, the handling of the 'clearing' (agricultural machinery in exchange with Greek tobacco) with Eastern European countries. *In general, the cooperatives were urged to undertake activities and exchanges which were irrelevant to their own activities and that, finally – either due to the non competitiveness of the Greek agricultural exports or due to the differences in the exchange rates – the cooperatives were invited to pay for the costs instead of the state to which belonged the political decision of those choice,* (Patronis, 2002, p.10)

Comment for footnote 20:

"Significant funding was channelled through the Unions of Cooperatives (second level) by means of subsidies for different investments, loans and tax exemption. Most of the funding either for the support – through the prices – of the agricultural income, or for exports and investments (of uncertain economic utility and effectiveness), were implemented by the administration of the ATE usually with procedures of disputed transparency, control and only verbal guarantees from the state which especially after 1985 was unable to cover its obligations. ...To the cooperatives' indebtedness, ... the monopolistic position of ATE (that shouldered the responsibility of financing the agricultural sector of behalf of the State), and its high interest rates played a crucial role." (Patronis, 2002, pp. 10-19)

Comment for footnote 23:

“This ‘coincidence’ of deep actions in the cooperative legislation in every alteration of the political situation in Greece, leads to the conclusion that under the pretence of social change or liberal reform is hidden a wish to manipulate the farmers mainly through their professional-economic organizations –which are the cooperatives – the guidance of their leadership or guaranteeing its tolerance towards the party choices and politics, and the construction of impressions concerning the 20 per cent of the Greek population – which are the farmers who belong to the cooperatives – but also for the rest of the population” (Lambropoulou-Dimitriadou, 1995, p. 98).

Comment for footnote 24:

“The social character of this [agricultural] debt has to be underlined. The farmer is impelled to borrow in order to carry out his operation, for which is destined by the system, and from which only the impersonal urban capitalism benefits. Thus, the indebtedness of the farmer constitutes a significant medium for the dominance of the State upon the agricultural production. For this, the State is obliged periodically, recognizing indirectly the social character of the agricultural debts, to write off part or the whole of these debts. In reality, these state interventions constitute an indication of a silent admittance of the de facto socialization of family agricultural economy” (Vergopoulos, 1975, p. 231).

Chapter 3

Table 3.1: Distinctive Characteristics of Markets, Hierarchies and Networks

<i>Key Features</i>	<i>Forms</i>		
	<i>Market</i>	<i>Hierarchy</i>	<i>Network</i>
Normative Basis	Contract— Property Rights	Employment Relationship	Complementary Strengths
Means of Communication	Prices	Routines	Relational
Methods of Conflict Resolution	Haggling— resort to courts for enforcement	Administrative fiat—Supervision	Norm of reciprocity— Reputational concerns
Degree of Flexibility	High	Low	Medium
Amount of Commit- ment Among the Parties	Low	Medium to High	Medium to High
Tone or Climate	Precision and/or Suspicion	Formal, bureaucratic	Open-ended, mutual benefits
Actor Preferences or Choices	Independent	Dependent	Interdependent
Mixing of Forms	Repeat transactions (Geertz, 1978)	Informal organization (Dalton, 1957)	Status Hierarchies
	Contracts as hierarchical documents (Stinchcombe, 1985)	Market-like features: profit centers, transfer pricing (Eccles, 1985)	Multiple Partners Formal rules

Source: Powell (1990)

Table 3.4: Essential Management Tasks for Network Managers (column 2) and Members (column 3)

<i>Essential Network Management Tasks</i>	<i>Management of Networks</i>	<i>Management in Networks</i>
Management of Accountability	<ul style="list-style-type: none"> • Determining who is responsible for which outcomes. • Rewarding and reinforcing compliance with network goals. • Monitoring and responding to network “free riders.” 	<ul style="list-style-type: none"> • Monitoring your organization’s involvement in the network. • Ensuring that dedicated resources are actually used for network activities. • Ensuring that your organization gets credit for network contributions.
Management of Legitimacy	<ul style="list-style-type: none"> • Building and maintaining legitimacy of the network concept, network structures, and network involvement. • Attracting positive publicity, resources, new members, tangible successes, etc. 	<ul style="list-style-type: none"> • Resisting efforts to “free ride.” • Demonstrating to others (members, stakeholders) the value of network participation. • Legitimizing the role of the organization among other network members.
Management of Conflict	<ul style="list-style-type: none"> • Setting up mechanisms for conflict and dispute resolution. • Acting as a “good faith” broker. • Making decisions that reflect network-level goals and not the specific interests of members. 	<ul style="list-style-type: none"> • Working at the dyad level to avoid and resolve problems with individual network members. • Working inside your organization to act as a “linking pin” to balance organization versus network demands and needs.

(table continues to next page)

Table 3.4: Essential Management Tasks for Network Managers (column 2) and Members (column 3) –continue

<i>Essential Network Management Tasks</i>	<i>Management of Networks</i>	<i>Management in Networks</i>
Management of Design (Governance Structure)	<ul style="list-style-type: none"> • Determining which structural governance forms would be most appropriate for network success. • Implementing and managing the structure. • Recognizing when structure should change based on network and participant needs. 	<ul style="list-style-type: none"> • Working effectively with other network participants and with network-level management, based on the governance structure in place. • Accepting some loss of control over network-level decisions.
Management of Commitment	<ul style="list-style-type: none"> • Getting the “buy-in” of participants. • Working with participants to ensure they understand how network success can contribute to the organization’s effectiveness. • Ensuring that network resources are distributed equitably to network participants based on network needs. • Ensuring that participants are well informed about network activities. 	<ul style="list-style-type: none"> • Building commitment within the organization to network-level goals. • Institutionalizing network involvement so that support of network goals and participation goes beyond a single person in the organization.

Source: Milward and Provan (2006)

Table 3.5: Alternative Forms of Network Governance—the Management of Design

<i>Design Characteristics</i>	<i>Self-Governance</i>	<i>Lead Organization</i>	<i>Network Administrative Organization</i>
Structure	No administrative entity, participation in network management by all members	Administrative entity (and network manager) is a major network member/service provider	Distinct administrative entity set up to manage the network (not a “service provider”)—manager is hired
Optimal number of members	Few	Many	Many
Decision making	Decentralized	Centralized	Mixed
Advantages	Participation, commitment by members, ease of forming	Efficiency, clear network direction	Efficiency of day-to-day management, strategic involvement by key members, sustainable
Problems	Inefficient—frequent meetings, difficulty reaching consensus, no network “face”	Domination by lead organization, lack of commitment by members	Perception of hierarchy, cost of operation, complex administration

Source: (Milward and Provan, 2006)

Chapter 5

Comment for footnote 56:

Given the lack of external institutional support, it was acknowledged that a “game rule” has been formed: “holding back information or giving out wrong information works as an entry barrier”.

“The biggest constraint was the mentality in the Greek public agencies and private banks, when I started in 1980. Now things have improved. The game rule was that those who had the access to the information they had the power, that’s why nobody shared information. They pretended that they did not know which form I needed to fill, to which office I had to take the form etc...The bureaucracy was a nightmare. So, holding back information and giving out wrong information was the rule of the power game” [The Entrepreneur-Leader]

This rule imposed serious obstacles in the early stages of the Blauel enterprise formation. Blauel’s reaction was characterised by patience, persistence and creativity. He sought information/knowledge sources in European networks. Additionally, Blauel was left without any other option than to educate farmers about organic farming and market orientation, which constituted the state’s duty and “cost money, time and strength to us”. Due to “physical and technological constraints”, the farming in Mani, is labour intensive and requires high costs. Therefore, the need of a “virtually” integrated scheme like the Blauel bio-program was necessary to minimise transactional costs. Finally, the unfair treatment of wholesalers and trade brokers made farmers cautious towards the downstream actors and less interested in developing the product quality. Blauel ought to transform all these established beliefs.

EXTRA BLAUEL QUOTATIONS

“We have an excellent product and we live from the enthusiasm of people who get know us. ...Even our biggest customers, such as (name of a multiple retailer chain) in Germany, who are a huge company, came alone to us... Of course we do our efforts, but we do not go outside their office to ‘beg’ them as other sellers do. Because if you do this you belong to another category, the buyer of this huge company says: “what do you want? I have 200 olive oils to evaluate per day”. So, if you wait to be the number 201, you could expect limited results.” [The Entrepreneur-Leader]

“In general, we build a good reputation through the quality of our communication, through internet, telephone, networking, meeting people, personal contact as much as possible, and second the quality of the product we never compromise in quality. And in that way you get a name, we do not say that we have only the quality of the olive oil, we have quality in terms of delivery time, of production. We have quality in terms of the generic problems that might arise with the food stuff, like these various scandals that

have happened in the olive oil world. We are of the few companies that never had a scandal in the 25 years that we have existed.” [The Entrepreneur-Leader]

“When me and my wife started, organic farming was unknown. Whatever we did we did it alone. We went to a village and said to farmers about the advantages of organic farmers. Next Sunday, a local agriculturist selling conventional fertilisers and pest control products went and said to those farmers that by following organic farming, they lose all their production in five years. ...We were like missionaries, for all issues, we searched alone what standardisation equipment we needed, who produces the organic fertiliser... we were beginners” [The Entrepreneur-Leader]

“With all the main collaborators (e.g. farmers, customers) we built a very close and friendly relationship. This has a cost, not in money, but in time and in terms of important life values. This depends on our personal philosophy, me and my wife, the way we want to live ...Or we have a relationship of heart or nothing.” [The Entrepreneur-Leader]

“Shared-learning experiences are something new for us. I am happy that this is happening and it is not something that I can create or demand from anybody, so we try to work with people and motivate them to become independent and communicative to others, to the outside. You will see some little reminders on the wall in the kitchen and the factory that “communication makes us stronger”Over the years this works. When we saw we were stuck in a group of people from farming environment who were not used to communicate, we worked with the people through seminars.” [The Entrepreneur-Leader]

“These weekend seminars were very revolutionary, they were meant to optimise the company, but later we realised that we are working with people who did not actually communicate, who used to surpass the difficulties...this gave us this family feeling and this close collaboration.” [The Entrepreneur-Leader]

“I think it is really based on personal qualities. This is the foundation. ...Professionalism, I mean that you are good in what you are doing and that you do it in a reliable way and the best way you can is also essential. I am not saying is only the personal side, but the personal side, e.g. attitude, love, openness and lack of fear, constitute the foundation, on which you can build on all the special technical skills. These skills are of secondary importance, the foundation needs to be O.K.” [The Entrepreneur-Leader]

“As the olive oil is a natural product, problems can occur. Our attitude towards complaints is immediate satisfaction of the customer, clearly. The economic issue is of secondary importance, whether we lose or not, the cost can never be transferred to the customer, especially in the case when the mistake is ours, we aim to provide immediate satisfaction without discussion. In the cases when there is a disagreement with the customer, then the situation is explained to the customer with love, respect and gratitude

in order to find a common solution, if we cannot find it, many times we cover the extra cost.” [The General Manager]

“The success of our company is based on just-in-time delivery, at all levels of collaboration with the customer. This means that what is promised is systematically delivered to the customer. There is an automatic procedure here. We are fully motivated here and all work consistently for a common goal. We call the management style ‘management by love’. Everything happens within a tender spirit.” [The General Manager]

“The real cost would be a claim of a customer ...to be heard in the market that our product quality is not premium. This danger is more likely now because we have a wider production base to control and we need to be consistent with what we promise. Besides, the more famous we become, the more attention of our competitors we attract. They try to approach to approach our customers.” [The General Manager]

“When some farmer groups abandoned the Blauel bio-program agreement, we let them be free to leave, without economic or other penalties, based on the contract they had signed. Our philosophy is respect the freedom of people to act according their will, and avoid conflicts. If something occurs, we try through communication, explanations and discussion to solve the issue.” [The General Manager]

Chapter 6

Comment for footnote 58:

However, some of the sub-categories were deemed as less decisive for this case study, compared to the rest cases, marketed by the white colour of bars in Figure 6.1 and briefly described below. Regarding the customers’ product recognition, Kefalas farmers had very little incentive for standardising olive oil and increasing its quality (i.e. organic), because the prevailing practice was to sell in bulk either in the domestic final consumers via personal networks or to Italian standardisation units via wholesalers.

“The combination of subsidies and high prices thanks to some special features of the Greek olive oil which Italian standardisation units want to mix it with their produce, led to the Greek suppliers’ lack of motivation for adding value on their product, building their own brands and give the Greek olive oil the position it deserves in the world market. When you can easily load a 30 tons shipment of olive oil in bulk to send it to Italy with a good profit, why to get bothered to differentiate the product, put it in nice bottles, participate in fairs and wait at least six months to get paid off...” [Magazine Editor]

Blauel’s success made well-known the wider area and Greek origin abroad, opening a new market, and introducing Kefalas farmers to organic farming. Blauel’s success convinced them to collectively add value and sell their product. Concerning the factor

'Quality certification scheme as a pre-requisite to market entry', through the Blauel bio-program, the Kefalas shareholders understood that in order to enter the market of certified quality products, they had to maintain higher levels of professionalism, economies of scale and effective internal communication. So, they closely imitated the principles of the Blauel bio-program (Section 6.3.7). Regarding the pressure of substitutes, domestically, heavy TV advertising campaigns pressured multiple retailers to have a small number of well-established domestic brands on their selves. This made impossible for Kefalas Ltd and other SMEs the access to multiple retailers. So, Kefalas Ltd was compelled to use only the marketing channel of domestic delicatessen shops. Besides, it faces sharp competition from other SMEs, even some incidents of unfair treatment occurred. Abroad, Kefalas shareholders had oversimplified the challenges, thinking that imitating the Blauel bio-program was enough to secure their success. Consequently, a period of 'disillusion' came where the Kefalas shareholders realised their limited market knowledge and marketing experience. This convinced them that in order to survive they need to stay united and to advance their marketing competencies was a priority. Owing to the negative implications of physical and technological constraints, Gaia Ltd a quality-oriented downstream actor started to prefer to cooperate with the well-organised Kefalas network, instead of a lot of fragmented farmers, to reduce its transactional costs. Also, due to the incomplete list of forbidden substances and not error-free detection procedures of organic certification inspection, it is hard to distinguish the case of accident from that of deceit. This difficulty is reflected by deficiencies in the EU legal framework. Consequently, the latter fails to limit the illicit trade. Kefalas Ltd and a group of other domestic SMEs reacted by establishing 'the Association for Greek Agrifood Products of Certified Quality' to help limiting the illicit trade, put pressure on the government, and tackle the existing deficiencies in the external institutional support.

EXTRA KEFALAS QUOTATIONS

"Except for the leader, Kefalas Ltd happened because it relied on a critical mass of young people, who wanted to stay at the village and work hard... loved innovation, and sought to produce olive oil in an environmentally friendly way. Each of us has made big farm investments. It happened at the right moment when enough young people stayed at the village, seeking solutions and having common ideas, and language." [The Kefalas General Manager]

"The whole effort for organic farming started in 1995 here at Kefalas. Blauel was the initiator. He found the fertile ground here, for instance he could easily introduce new ideas; we are of the same young age... The village president was an active person, (name). Everything happened thanks to him: he made the contact with Blauel, completed all the paper work, his idea was Kefalas Ltd later." [The Kefalas General Manager]

"Blauel preferred working with farmer groups rather than isolated farmers. As a respond to this demand, our group was established. Later, we become active

independently. We decided to be a cooperative enterprise rather than a cooperative, because this gives us more flexibility" [The Kefalas General Manager]

"By observing the Greek olive oil supply chain and market for the last 25 years, I reached the conclusion that there are two different levels and speeds of firms' development in the Greek agri-food sector in general. There is a massive stream of firms producing conventional agricultural products, and another stream of dynamic, healthy and innovative companies that are usually small and spread around Greece. These have differentiated their product e.g. organic farming, but because of their small size and being isolated, needs more support than the former. At the same time, these companies are usually excluded by the national agri-food associations, in which mainly conventional producers are represented. Although they offer other products (e.g. olive oil and wine), these small differentiated firms have similar problems. They cannot afford the cost of promoting their differentiated products. Their direct competition is not considered due to their small size. On the contrary, synergies can occur, for instance of promoting a basket of certified products abroad." [Magazine Editor]

"As farmers, the 18 members of Kefalas Ltd, we may have "hidden" complaints, because this is the mentality of the Greek farmer, he wants a special treatment, e.g. the quality of "my" produce...but we operate with strict quality criteria that all we respect because we know these are for our benefit." [The Kefalas general manager]

"I believe Kefalas Ltd offers a convenient service to Gaia Ltd, because it deals with a group of suppliers, offering the quantity demanded, rather a large number of isolated farmers." [The Kefalas general manager]

"There was a critical moment at the beginning, when some trade brokers disliked the idea of the Kefalas establishment, because they were losing their job. So, they offered enticing prices to some members of the Kefalas critical mass to break their verbal promise for exclusive supply to the Kefalas Ltd. No contracts existed then, but most of us respect our agreement, moral commitment."

"When we as farmers started the trading part, we were too enthusiastic, having unrealistic expectations, because we did not know the existing difficult market competitions. There is not the demand for organic olive oil that we thought, and if there is, the market is so divided that it is impossible for us to collaborate with everyone. Many competitors exist. We were enthusiastic, discussing continually our dreams, but since there was not progress, we started complaining...the board of directors changed. Now there is some maturity." [The Kefalas general manager]

For the first five years, there was not any contract, only our moral commitment. Almost all of us we kept our word for the verbal agreement we initially had. It seems in the Kefalas case, the moral commitment is strong. This can be considered as social cohesiveness, which intensively enforced our discipline to issues of quality and these are paying off."

"The number of members is a double-edged sword. Flexibility trades off the availability of capital." [The Kefalas General Manager]

"In Greece, there is a common misunderstanding. This is the false expectation that a good promotional campaign is enough to solve all our problems... but promotion without having first established an efficient production base and supply chain is a waste of money. Some of this money could be spent on doing what the Union of Sitia Cooperatives in Crete did. When a few entrepreneurial minds were elected in the board of the directors, they hired a chemist that has spent years visiting each cooperative, informing its members about how to improve the product quality, and collect samples of its olive oil produce. According to these samples, the price offered by the Union of Sitia Cooperatives was determined. This resulted in the Sitia olive oil gaining world quality completion awards for two years in the row, making the product well known abroad and dramatically increasing its export. This was a result with 10 years of preparation behind it. We need to fully understand the need for the total improvement of the product, starting from its roots at the research level, and the long-term commitment to the quality improvement, the cost reduction, ...the association of the product with the local territory and the creation of a product identity" [Magazine Editor]

"In summary, there is needed a combined effort of developments in the structure of the domestic olive oil supply chain and market, combined with political will that is expressed through an effective legislation framework and supportive mechanisms. The increased market pressure enforces bottom-up networking initiatives of agrifood SMEs to cover some of these deficiencies and push the State to offer the support they needed. Given the frequent changes in the ministries' administrators and their strategies, I believe the stakeholders related to the Greek olive oil scene with a common interest would manage at some point to establish a model of operation that is less dependent on these coincidences" [Magazine Editor]

"I am satisfied by the collaboration with Kefalas Ltd. I trust them, I leave my produce, without caring even to check its weight. I trust the receipt that they give me. They are hard working. They offer better prices than other buyers. I was not satisfied with others, I was begging them to buy my produce, and their prices were low. With Kefalas Ltd I feel secure, and their prices are very competitive.... They also prepare all my paper work to get the subsidy and the organic certificate" [Independent Farmer]

"I do not believe that any problems will occur in the future in our collaboration, because people in Kefalas Ltd are fair, and people cannot change so easily. If they cannot pay me, there is going to be a reason, I show patience and try to support them as much as possible, I will not neglect them. Difficult times can come but I am sure that I have as fair a treatment as everyone else." [Independent Farmer]

"I strongly believe that discipline is necessary, because if anyone decided whether or not to deliver its produce, then we, the other members of Kefalas Ltd, would fail to respect the agreements that we have made with customers. We would have to search for

buying the produce of others, for which we have little knowledge on its quality, the conditions of olive production and processing ...” [Kefalas Shareholder]

“I believe we are still at the beginning, only 30-40% of our goals have been materialised.” [Kefalas Shareholder]

“There is a problem in the cash flow of Kefalas Ltd. We are the suppliers and shareholders of the Kefalas enterprise at the same time, so we get paid when the company has the money from the customers. Those remaining in the company have accepted this way of operating, because as I mentioned, some could not afford it.” [Kefalas Shareholder]

“In organic products, traces of pest control solutions can be found which are not the responsibility of the farmer or standardising unit, for instance because the neighbour farmer uses them, or those brought from the wind. There are unknown substances, which we do not look for or are not included in the regulation. However, a specialised research lab in America or Germany can find traces of them, and you do not know where those came from. So it is hard to guarantee the product quality and distinguish between those intending to cheat and those that do not” [Magazine Editor]

“We started originally as 23, but today we are 18, because 5 people were not consistent with our conditions and principles...they yield to some trade brokers’ pressure of enticing prices and dishonoured their word to the rest of us for exclusive supply to Kefalas Ltd. With respect to the cohesion and right function of the company, initially it was only our word of honour, not contracts. ...There was also the issue that then the enterprise lacked its own storage space, so the members stored their produce in their own houses’ courtyards, so Kefalas Ltd could not really have the control, relying only on our word of honour. We had agreed on sending any potential buyer of our produce to the Kefalas general manager. We banish those members found to act independently...” [Kefalas Shareholder]

“Some difficulties and delays in the process of obtaining our own infrastructure as Kefalas Ltd, e.g. buildings, land, and standardisation equipment brought us (the members) closer. The difficulties in finding buyers for our product were a test for us, whether each of us could keep his word. However, fortunately things went well. These difficulties forged our bonds as team. It proved our commitment. Our response to the five members breaking our verbal agreement proved that we could decide as a group, because the board of directors made a proposition, and all the rest supported it. It was clarified that the Kefalas enterprise is not disposed to tolerate such behaviour.” [Kefalas Shareholder]

“We live in a small place, news get around quickly. If one farmer is paid a good price, for instance 2 Euros per litre, this is taken from the rest for granted. But we, as Kefalas Ltd, we negotiate hundreds of tonnes, we are anxious to sell out quickly, it is risky to keep such a large quantity for long, due to dramatic changes in the market. We also try

to be competitive in price. Some of our shareholders complain: "why we do not sell at 2.10 or 2.50 Euros per litre?". This is what I mean about cooperation, we need to be open-minded, to think that that one independent farmer might have a better quality, or it might be that the buyer is in a great need for a few tonnes of olive oil to cover an order, so for such a small quantity he can afford paying a higher price than normal. However, having hundreds of tonnes to sell, we need to ask for a lower price" [Kefalas Shareholder]

"We started by having an advantage. The man who started the Kefalas initiative was the village president for 16 years. Through his work, he had proved he knew what he is doing, but most importantly he had gained the respect of his fellow-villagers. As a result, all his movements were acceptable, without any criticism. Because he inspired respect, nobody had a disposition to criticism, all wanted to discuss what options we have. He is like a magnet to others because they believe that something worth while had begun. Secondly, when the board of directors changed, some members like myself and the general manger remained. We had the previous good character as a proof, this made the rest accept us and follow our decisions." [Kefalas Shareholder]

Chapter 7

Comment for footnote 61:

For Zagora, analysis indicates many of these seem to play a role, however some of the sub-categories were deemed as less decisive for this case study, compared to the rest cases, marketed by the white colour of bars in Figure 7.1 and briefly described below. In terms of institutional support, the funding made available in the 1980s permitted the ZAC to increase in size, and acquire the needed infrastructure. In contrast, the problematic legislation framework (i.e. for cooperatives and trade) and efficiency of public agencies, resulted in the ZAC's dependence almost exclusively on its leadership's entrepreneurial/marketing and management skills in order to face market challenges or internal crises. In terms of market factors, physical constraints have been important, witnessed by consequences of diseases and the need for austere quality control to avoid opportunistic behaviour on behalf of farmers.

Chapter 8

Comment for footnote 63:

With respect to product recognition and differentiation by the customers, since the end-consumers hardly recognise the Agia origin, low incentive exists for local packers and farmers to form quality-oriented networks and collectively reap the benefits. Besides, Agia network actors have not faced any serious problem with imitations; in contrast some of them have caused a problem of illicit trade against the ZAC have been reported. The pressure of well-established substitutes, especially the 'Zagorin' brand, makes more obvious the inefficiencies in Agia apples' standardisation and inter-firm coordination to

the downstream actors, especially the multiple retailers. Therefore, the Agia farmers need to try harder to refute the impression of the downstream actors of 'inferiority-not a premium brand' of Agia apples compared to Zagorin apples. However, for some Agia standardisation units, the pressure of the 'Zagorin' brand is occasionally turned into an advantage through tactics of misusing the Zagora origin reputation. Regarding participation in a quality certification scheme as a precondition for market entry, Xatzisalatas Ltd had no other option than introducing the integrated apple production management to Agia farmers in order to secure a big supply contract with Carrefour-Marinopoulos Ltd, the biggest domestic multiple retailer. This caused radical changes in the governance of the packer-farmer relationship, introducing a long-term perspective and an unprecedented supportive character. Those Agia farmers converted, enjoyed for first time regular agriculturist's guidance, guaranteed purchase of the whole quantity at a satisfactory price, and support with certification bureaucracy, offered by the packer. However, the scale of this change was small to reverse the gloomy picture of the occasional, unilateral relationships formed between Agia packers-farmers.

Briefly, three main categories of factors were identified: market conditions, social cohesiveness, and external institutional support. For Blauel analysis indicates, all three factors played a role, however some of the sub-categories were deemed as less decisive for Blauel, compared to the other cases. Figure 5.2 summarises the impact of all factors on Baluel's evolution diagrammatically; most important impacts are depicted with black bars, less important with white bars. The length of the bars reflects the impact of the respective factor to network evolution.

As Figure 5.2 shows, the three factors identified as particular critical to the Blauel network evolution were: (i) recognition and differentiation of product by end customers, (ii) quality certification scheme as a pre-requisite to market entry and (iii) pre-existent social cohesiveness and communality in interests/perceptions. The next sections explain the impact of these factors.

EXTRA AGIA QUOTATIONS

"In my opinion, the collective action is the only way for farmers to enjoy the maximum benefits of farming. The cooperative is a safety valve, ...provided that it has a strong base. I mean its members have to have common perceptions, vision and interests. It does not help if a group of cooperative members are retired or if another relies on a permanent public job and has a farm as a complementary income.... It is better all cooperative members are full time farmers with strong interest in the farming' future prospects. Today in the AAC, from 100 members, only 15-20 farmers have such common perceptions and interests. For development a cooperative needs a large basis of people with homogenous interests. When from 100 members, 70 have no main interest; they accept whatever price is given, because they do not live exclusively from farming. Given this, a cooperative board of directors is needed to control more things." [Agia Farmer]

"In our cooperative, the responsibilities have been loosened too much: the exclusive delivery of production, the use of agricultural input outlet, taking advice from the cooperative agriculturist. A penalty exists for those not exclusively offering their production to the cooperative. This was not applied, because the prices offered by the traders were much higher than those offered by the cooperative, especially the last 3-4 years when the apple prices in the market were high." [Agia Farmer]

"Our cooperative has a big debt, resulting from the government's past policies. Since 1981, the government required all the standardisation and packaging of the whole production supplied to the market. However, the government did not enforce all those involved in marketing of fresh fruit and vegetables to apply the policy. This has started to happen only now. Through funding in 1981, the AAC built the first standardisation unit in the region, but because the policy was not applied, the cooperative ran into debt, as it could not cover the fixed costs of the construction. Later, private traders also got funding and built other standardisation units in the area. These traders used to come to Agia as wholesalers, but built their own standardisation units the last in 6-7 years. So, from 1981 to 7 years ago, the AAC had a huge unexploited opportunity to add value to the product. Specifically, the AAC started by collecting 1500 to 2500 tonnes of apples, and now has ended up marketing approximately 600 tonnes. Due to the AAC's huge debt, now we cannot take a loan for the Agricultural bank and improve our cash flow. Additionally, in recent years, the market exchanges mainly are done through cheques, which creates more problems in the cash flow. On the contrary, the traders-packers have a good cash flow, so they usually have paid off the farmers by Christmas and also give forepayments, so the farmers can cover their expenses during the harvest time." [Agia Farmer]

"The only advantage over collaborating with the traders that we have as cooperative members now is that payment from the cooperative is guaranteed." [Agia Farmer]

"Given the exploitation of the local farmers by the traders-packers, the only solution for the Agia farmers is a cooperative that is strong, healthy, that could play a significant role in the market, not as the AAC with its small market share of only 600 tonnes, for example a cooperative that could market at least 40% of the Agia apple production, compared to the current 2-5% of the AAC. The Agia farmers have been convinced of this need...if you could hear the farmers' discussion after what happened this year, all said "we need to get organised, have stronger collective action by establishing farmer groups or a cooperative" It might be alternative forms to the AAC, for example a group of 10-20 big farmers to supply enough quantity to support a sale point in the wholesalers' market in Athens, an order for a multiple retailer... The local farmers have been convinced that collective action is needed, the issue is who can lead, organise them. ...I do not know who has such capabilities... only the need can force them to get organised... one more year with the unfair treatment from the traders-packers like the last one is needed, when the farmers could not cover the costs and provide for their family..." [Agia Farmer]

"To describe the profile of a good cooperative member, a person needs to be a full-time farmer, to monitor the whole process that their produce follows after being delivered to the cooperative, and know how the market operates. I mean it is important the cooperative member show an interest in the function and challenges the cooperative faces, and does not deliver his produce and avoid any further involvement. In the AAC's general meeting less than a 20% of members comes, compared to 50% in the past." [Agia Farmer]

"As a board of directors we achieved first to sell other products than apples offered by non-cooperative members through the AAC's sale outlet in the Athenian wholesale market for the period when apple sales " [Agia Farmer]

"Most cooperative members have the AAC as their last option, in years of lower quality production, they delivery it to the cooperative and accept whatever price is offered. They have not the cooperative consciousness. This attitude negatively affects the AAC, because it deprives the AAC of the opportunity to have enough quantity to cover the whole demand period in the market and therefore achieve higher average prices." [Agia Farmer]

"The trader-packers do not make a social policy, they have the option to choose. They come to the farm, check the quality and buy only if they like it, regardless if they had a good collaboration with the particular farmer last year. On the contrary, the cooperative has to market its members' produce, whatever quality they have." [Agia Farmer]

"First, the State does not protect the farmer from those traders, who easily give rubber cheques, and can be declared bankrupt without any punishment. Secondly, no general directions are given to us for instance, what to produce, what innovative production system exist, do they want us to be farmers or entrepreneurs... We take all our decisions alone, without any information. The only contribution of the State so far is the funding, but without any guidance or other support." [Agia Farmer]

"There is adulteration of apples in the domestic market. For instance, Turkish apples were sold as Greek by some wholesalers to reduce the prices, or one merchant can mix Agia or Kastoria apples with Zagorin apples, which have a higher price. The product identity is negatively affected." [Agia Farmer]

"We (the Agia farmers) have common problems, but each one has different interests, mentality, attitude and economic prosperity. So, although in the difficult years we make gatherings and discussions, agreeing on the need for collective action, after a while we have forgotten it. There is not a person to lead. Besides, everybody survives with one or another way, only if we found ourselves in a severe need, we would be forced to act

collectively. However, I think the packers suspect this and keep always a few satisfied in order to control the situation.” [Agia Farmer]

“An apple farm of small size is less than 3 hectares. 95-6% of the Agia farmers are of small size. The remaining 4-5% have more than 7 hectares. However, 20% of small farmers have farming as a secondary income, so they accepted lower prices offered by the packers more easily. The big farmers (5%) have more stable collaborations with the packers and enjoy better prices.” [Agia Apple Cooperative Administrator]

“As the AAC, we sell apples 0.40-0.50 Euros for kilo at the wholesaler market and the consumer at the open farmer market buys it 1.10-1.20 Euros. The trade ministry is not efficient to control overpricing and illicit trade. As farmers, we want to sell 0.50 Euros per kilo, cover costs, for instance 0.30 Euros, and have 0.20 Euros profit. Then, I want the retailer to have other 0.20 Euros per kilo profit, and the consumer buys apples for 0.70 Euros per kilo. So, the consumer buys more quantity in a competitive price rather than less in a higher price. ...There are regulations requiring all quantities of fresh fruits and vegetables to be standardised, packaged and labelled, so the farmer can be identified. However, these regulations are nugatory for years. This could help to not only control the illicit trade, but also to motivate the farmers to increase their quality.” [Agia Apple Cooperative Administrator]

“The employees of the local public agricultural agency show willingness to help, but their number is small and their time is devoted to bureaucratic processes related to agricultural subsidies.” [Agia Apple Cooperative Administrator]

“Ideally, a collective scheme needs to start from us, the farmers, not the State. When you find yourself in a strong need then it is too late. Therefore it needs to start from people who have some knowledge and future prospects. The remaining farmers have to follow and support those people without a sly attitude, for example to deliver only the inferior quality of apples. They have to believe in the collective scheme. Regarding the commanders and employees of the new scheme, the old practices must stop. They elected persons in the AAC based on political identities rather than on qualifications and knowledge. A high school degree is not enough to govern a cooperative, or the bonds of relatives are not the reason to employ someone without the necessary qualifications. Meritocracy is crucial. The local farmers have objectively insufficient skills to manage a cooperative. Therefore, we need to hire people with the proper expertise, and give them incentives to work for the new collective scheme, to search for new markets. Some of them will be responsible for marketing, others for agricultural support to the farmers...These need to be done from people who want to work hard...The most important is the cooperative or farmer group to not be as farmer cooperatives operate today, but to show the professionalism of a private firm. I mean we cannot be a charitable foundation. The market rules are strict and hard. We ought to be first in quality, competitive in all aspects, ... and determined on the battles we have to give within the collective scheme, for instance with the farmers supplying inferior quality, with the employees who do not fulfil their duties, and with the commanders, managers

who seems inactive to explain why...Otherwise with the tolerance and lack of discipline of the ACC, we cannot have any progress." [Agia Apple Cooperative Administrator]

"The AAC's image is bad. However, the Agia farmers' doubts against the AAC are not expressed openly, so as a new board of directors, we have not the opportunity to explain to them that things have dramatically changed now." [Agia Apple Cooperative Administrator]

"The Agia farmers think that they solved the problem, if today they manage to be given 0.10 Euros by the trader, when they bend and kiss his hand. They do not reckon that next year, they will lose these gains and be treated unfairly. Moreover, they tend to pretend to be defying the trader, but they beg him secretly." [Agia Apple Cooperative Administrator]

APPENDIX II – Questionnaires & Matrices for Chapter 4

A. QUESTIONNAIRE TO THE GENERAL MANAGER

A) INTRODUCTION

-Describe briefly please the enterprise

(present organisation structure; its current capabilities which give sustainable advantage; firm's objectives and future plans)

- How it happened to get involved to this enterprise?

B) DESCRIPTION OF NETWORK (1st objective to identify the key-interviewees of my research)

- Some enterprises of agrifood sector maintain relationships with other private enterprises, public consulting agencies, cooperatives or people, in order to collect information/ advice/know-how about: (included in other Figure B)

- market (e.g. demand trends, consumers' preferences, prices, competitors)
- processes such as quality certification, distribution, processing
- technology (e.g. production methods, IT)
- food safety legislation and legislation of environmental protection
- CAP
- public/EU initiatives (e.g. EU projects)
- innovative solution in production, marketing, etc.
- Staff availability and capabilities
- potential business partners
- capital sources
- training, education

Do you behave in the same way? If yes, please give me some details with whom and what kind of relationship you maintain?

- Are there specific etc. producer of raw materials or exporters who you prefer to have relationships instead of others? Why?

- Are there any friends or relatives who participate/influence in any way your business activity?

For each of these relationships referred could you describe the questions below:

- How it happened to know about the other firm/agency... and start a relationship with?
- Did you use specific criteria to select those with whom you establish a relationship? What result do you expect to have this relationship for you and the other (s)?
- What have you offered/invested to establish and maintain this relationship? How much easy it is? How much important are you deem each relationship

separately for your firm's growth? How you would characterise the nature of each relationship? Any special ties (e.g. friends, family-ties,...)?

- Are there any rules, procedures or norms (written or not) established in your inter-firm relationships? Please give us more details (what, who and why establishes them, how do you characterise them)
- Until now, how would you characterise the outcome of each relationship? Cost/benefits? Does it meet your expectations? How you react when this match does not satisfy you? Are you thinking/planning to make any change in existing inter-firm relationships? How much easy to expect this to be?
- Do you any shared-learning experience with other firm or agencies? Please describe it.

C) DESCRIPTION OF EVOLUTION OF NETWORK OVER THE TIME

- Over the time, some firms have noticed changes in the relationships with other forms/agencies/ people compared to the past, particularly in (it will be included in Figure C):

- identity of firms/agencies
- number of firms/agencies
- resources exchanged
- your expectations of the relationship
- your motivation to establish a new relationship
- actual benefit gained
- actual costs occurred
- easiness/difficulty to establish/maintain/break a relationship
- degree of impact on your firm

Do you have noticed something similar? If yes, please give us more details.

- Are you satisfied or not by these changes?
- Can you predict if any more changes will happen in the future? What feeling it creates to you this prediction?

D) ANALYSE FACTORS INFLUENCING THIS EVOLUTION

-According to your opinion what might cause these changes in firm relationships with others? (any change in your firm's needs/objectives/ strategies over time, or any change in your firm's environment, which you think is related to these changes)

-To what extent is your firm tried to stimulate or avoid them? Why?

- What determine your attitude towards the relationships of your firm with others? How?

- Is there any external stimulus (e.g. incentives, obligation, initiative) for increase consciously (by intention) relationships with others, offered by any public or private agency? Please give us more details about it. (What, when, how did you come in conduct, did you participate in a training or project, what did you learn by this experience)

- **Have you found any particular obstacle/problem in establishing/ maintain/ break any kind of firm relationship with others? Please give us more details about it.** (What, how it influences negatively your (networking) activity, how did you try to overcome it, was it successful this effort)
- **How you manage conflicts with other firms? Is there any mediator? Please give us more details about it.** (what type of conflict, how is it resolved, what the role of mediator, how does conflict influence inter-firm relationships)
- **What did you suggest that it could enhance your (networking) activity? Are there any issues/problems that you are not enough confident how to tackle them? What kind of help, you suggest, can be efficient?**
- **Identify those features of your firm relationships that you think are good, so it is important to be maintained? How, you suggest, this can be done? Who should take care of it?**
- **Identify those features of your firm relationships that you think that they constitute their 'dark side', so it is important to be identified and minimised? Please think when you felt 'that something does not go well' in a business relationship or 'this relationship is unhealthy'? How did you try to defend against these aspects of a relationship?**

E) COOPERATION, COLLECTIVE ACTION, LEADERSHIP (Actually, it is sub-category of D. but I think it is important to have them separately)

- **Could you please describe us what cooperation means for you? Please give us more details and examples about it** (definition, are there any principles, how much easy is to establish cooperation; are there any critical points in this procedure)
- **What can lead to collective action in business world? And how?**
- **What capabilities/features of Mr. Blauel do you think help him in his effort as a leader?**
(How close (level of conduct) are you feel to him)

F) ASSESS THE CONSEQUENCES OF NETWORK AND COLLECTIVE ACTION ON FIRM PERFORMANCE AND LOCAL COMMUNITY

- **Some firms consider that relationships with others (enterprises/ agencies/ people) and the way that these relationships evolve over time influence up to an extent your firm's:** (It will be included in Figure D)
 - financial performance
 - sustainability within a changeable environment
 - management style, attitudes
 - structure
 - way of operation (e.g. the used production or information technology is selected in a way to increase compatibility with suppliers/customers and further efficiency and flexibility)

- innovation, quality improvement
- decision making process
- strategy design and implementation
- way of servicing consumers.

So, these firms take decisions about design and application of business activity having in mind these relationships, how they have evolved and how firms want these relationships to evolve in future. Some other firm consider that relationships with others do not influence the firm performance, so they ignore them in design and application of business activity. What is your opinion about all these? And how do you behave in practice?

- **How much easy is to assess the impact of the firm's relationships with others?**
- **Are there relationships whose the way that they have been evolve over time, do you think that, is beneficial or damaging for the firm? Give examples.**
- **Do you think that the business initiative have influence the local social and economic prosperity? If yes, how? Give us some examples.**

Example of Matrices for Analysis of Four Case Studies for One Contextual Factor:

Contextual Factor (Independent variables): MARKET CONDITIONS					
Factor subcategory	Analysis/ Case Study	KEFALAS	ZAGORA	AGIA	BLAUVEL
Nature of downstream supply chain actors: (i) (continue)	Factor's impact on the Network evolution (continue)	By reactivating the existing strong social bonds. At the same time, the farmers engaged in a guided sustainable collective action, which slowly changed their perception whether they were capable of establishing it or not. In fact, the <i>Blauvel</i> bio-program constituted the 'school'. Two other factors were decisive. First was the existence of a <i>strong</i> entrepreneur, who led the whole Kefalas initiative. Second was the <i>existence of a critical mass</i> of young farmers having strong motive to 'take the control of their life on their hands'.	sell it. The Zagora farmers could not tolerate the unfair treatment of behalf the wholesalers, after a year of hard hand work in the farm. So, the poorest farmers early thought the collective action as a reaction to unfair treatment.	such as the Agia apple cooperative, is <i>very bad</i> .	young farmers in Lacedaonia area, who established their own cooperative enterprises, Kefalas Ltd. and Organon Ltd respectively. This happened because <i>game other factors</i> also co-existed. Particularly, these farmers were young, had pre-existing strong social cohesiveness and a person with leadership and strong entrepreneurial qualities. In contrast, the farmers of Saidaia village, the only other case with strong pre-existing bonds, remain with Blauvel Ltd. When they were still young, they early progressed to collectively invest in building their own processing unit of olives. Also, they constituted the critical mass in Blauvel's initiative to introduce organic farming. However, the standardisation was an unknown practice then. Now, they are too old to set up their own standardisation unit, so they prefer to enjoy the benefits of the Blauvel bio-program.
	Nature of downstream supply chain actors: (ii) (continue)	Yes, the foreign wholesalers/multiple retailers have set an <i>autere quality assurance</i> certification scheme for those wanting to enter the organic olive oil market. The reason for this is that 'organic' requires by definition the ability of actors to monitor and certify the quality.	No, there was not such a pre-requisite by the wholesalers or multiple retailers. However, the ZAC realised that in order to differentiate itself in the market, it needed to give incentives to its members for improving quality. However, establishing a quality assurance scheme became the pre-requisite to access to specific public funding, a <i>national program of integrated farming</i> . This led the ZAC to provide much more support to those farmers-members involved in this program, than conventional farmers (e.g. completion of bureaucratic procedures, special agricultural	No, there was not such a pre-requisite to market entry by the multiple retailers. Only in the case of Natzisalas Ltd., the domestic leader of multiple retailers, Carrefour-Martinopoulos Ltd. set the precondition of the integrating farming for having collaboration. This forced Natzisalas Ltd to establish a vertical supportive relationship with those farmers involved in the integrated farming program	Yes, Blauvel decided to export olive oil under an organic quality certification scheme. Particularly, in order to establish a production base of the needed scale for exporting, Blauvel Ltd sought to communicate effectively the need for higher professionalism, orientation to the quality production that could certified and enticement to the needs of the customers. The local farmers more or less lacked the aforementioned features and attitudes, due to the long-existing production system of conventional olive oil sold in bulk and never certified for its quality. In order to have such an attitude change, Blauvel Ltd ought to first

Contextual factor (Independent variables): MARKET CONDITIONS					
Factor subcategory	Analysis/ Case Study	KEFALAS	ZAGORA	AGIA	BLAUET
<p><i>Nature of downstream supply chain actors:</i></p> <p>(i) If the downstream actors are very concentrated, then the development/success of collective initiatives among fragmented suppliers can be inhibited. However, if the high concentration of the downstream actors is combined with unfair treatment of the fragmented suppliers by the downstream actors, then the development of 'countervailing power' networks from the suppliers is stimulated.</p>	Exist?	In the domestic market of olive oil: Very high concentration of standardisation units, which have <i>dominant brands</i> , high of multiple retailers; low of wholesalers; Also, the Kefalas farmers had very frequently faced the unfair treatment of the downstream actors. The Blauet bio-program was an exception. Then, they experienced for first time a supportive and fair treatment. Overall, before Blauet, the Kefalas farmers had turned over the behaviour of the downstream actors. They considered the option of collective action. However, this remained a 'wish' due to their past negative experience of failed farmer cooperatives. After experiencing the Blauet bio-program, some young farmers under a strong leader had a model to build their collective action accordingly. So, they started believe in it at the actualization level. In the foreign market of olive oil: Usually very high concentration of multiple retailers; high concentration of wholesalers, medium of standardisation units. However, it depends on the country. The Kefalas farmers had less frequently faced the unfair treatment by downstream actors in the foreign market.	In the domestic market of apples: Before 1992, low concentration of standardisation units; low concentration of multiple retailers and wholesalers. But, the Zagora farmers had frequently faced the unfair treatment by the downstream actors, since that was the common practice in the relationships with the upstream actors. Since 1992 high concentration of multiple retailers and wholesalers, low concentration of standardisation units;	In the domestic market of apples: the same as the Zagora case; However, the Agia farmers still face very frequently the unfair treatment by the packers. In fact, this happens because of packer's rather manipulative reliance on verbal agreements rather than written contracts. This often led to the farmers being exploited, as they would be forced to sell their production before it lost its trade value. Notice, that all the private standardisation units are established by the wholesalers who decided to invest upstream. However, there is an endless circle of succession of ownership rights of the standardisation plans among them, after frequent voluntary bankruptcies. This is a part of the unfair treatment of the farmers	In both the domestic and foreign market of olive oil, the same as described in the Kefalas case. All the farmers collaborating with Blauet Ltd had frequently faced the unfair treatment by the downstream actors. Similar to the Agia case, the farmers were forced to sell their product based on rather manipulative verbal agreements with the wholesalers/brokers. However, until the last minute they were not sure whether their production would be sold and how much unfavourable would be the price. So, for these farmers, the Blauet bio-program was an exception, since they experienced for first time a supportive and fair treatment. Therefore, most of the farmers participated in the Blauet bio-program are enough satisfied by their collaboration with Blauet Ltd, to avoid thinking the alternative solution of collective action. Only in two cases, the collective action was stimulated. See below in the 'Factor's impact'.
	Factor's impact on the Network evolution	Factor's impact: Low, since alone it could not stimulate the collective action. Particularly, the Kefalas farmers knew they needed to establish collective action in order to oppose to the unfair downstream actors. However, they did not believe it as a feasible solution. The Blauet bio-program played a critical role. First, it introduced the Kefalas farmers to a completely new and dynamic market of organic olive oil sold as a standardised product abroad. Second, it was highly diffused among Kefalas farmers.	Factor's impact: High, Before 1992, the wholesalers used to be the strongest link in the supply chain. Then, the focus was on maximising the profit rather than improving the quality. Also, the standardisation of fresh fruits and vegetables was very rare. Therefore, the wholesaler market was based on bargaining without uniform quality standards. This could lead to the exploitation of the farmers, due to their product perishability and pressure to	Factor's impact: Low. In spite of the combination of high concentration and unfair treatment, creates a strong motive for collective action, the latter does not flourish. It remains a 'wish'. This happens because there is not the basis of pre-existing social cohesiveness and community in interests and perceptions among the Agia farmers. In contrast, the past experience of the Agia farmers in any previous collective initiatives	Factor's impact: High. Most of the farmers through the Blauet bio-program found a safe and fair way to sell their production. So, for many reasons they do not think to invest collectively in downstream activities (i.e. standardisation/wholesaling). In contrast, the Blauet bio-program worked as a catalyst for stimulating collective action among the farmers only in two cases. Particularly, the Kefalas farmers and another team of

Description and Relationships of Open and Axial Codes developed:

Categories	1st level of codes	2nd level of codes	4th level of codes	4th level of codes	Code Definition
Consequences of Net Evolution					
	Change in Easeiness of Info Knowl Exchange				
	Impact on Local Society				e.g. Strengthen local economy and social bonds
	Market Overlaid				e.g. ability to recognise and satisfy customers' needs & preferences.
	Performance				
		Benefits of Net Members			
			Transactional Outcomes		Financial performance + access to resources + organisation credibility. Economics of scale, Marketing Outcomes: product recognition and differentiation, assessed by clear branding and strong customer reputation; premium price; good competitive positioning in terms of market share and attractiveness as a partner by the ecosystem actors
			Transformational Outcomes		Change in cooperative attitude and behaviour towards to network involvement
		Implications of Lacking a Network			Interviewees' comment on what the absence of a network causes?

Categories		1st level of codes			2nd level of codes			4th level of codes		Code Definition	
Influencing Factors for Net Evolution											
	Behaviour Factors										
					Cooperative Spirit					Tendency of actors to collaborate, share their resources and problems as well as collectively take decisions and act	
					Entrepreneurial-Risk taking					Tendency of actors to seek innovation in products, processes and inter-firm relations + Alludes towards risk	
										(e.g. ability to change attitude, perspective and follow new ideas)	
						Susceptibility of New Ideas				Network horizon (e.g. ability to build and exploit weak ties such as relationships with non-supply chain actors, ability to identify and promote congruency, synergy and strategic alliances, by incorporating in their strategy other members' interests/constraints as well as long standing (or resources))	
						External Orientation					
						Proactive rather Reactive					
					Explanation of a specific attitude					When interviewees explain a specific attitude of theirs or other actors	
					Leadership					The existence of actors wanting to lead a network initiative	
						Leadership Qualities				Skills of managing a collective scheme: ability to understand how some cooperative principles (e.g. transparency, equity, justifiability, democracy) can be preserved and communicated by establishing the appropriate governance mechanisms within a collective scheme. Practically, this means ability to detect possible pitfalls, think critically and in assisted terms, communicate and persuade, synthesize, coordinate, tackle and solve	
						Leader's central position in a relative network				Position of the leader in the network structure, does he/she fits a "Structural hole"?	
						Initial Critical Mass				The existence of a number of actors showing strong commitment in the early stages of network establishment	
					Need for Independence & Self-existence					Tendency of some actors to abandon an existing network and set up their own network initiative	
					Professionalism in Job					The extent of which actors consistently deliver products and services of high quality	
										Differences in degree of professionalism amongst private firms and collective schemes	
						Professionalism of a private firm					
					Seeking only Easy Gains					Tendency of actors to prefer short-term benefits with little input	

1st level of codes	2nd level of codes	4th level of codes	Code Definition
Network Description			
Network Content			
Network Evolution			
	Change in Attitude		
	Change in Governance		
	Change in Structure		Change in governance mechanisms, both formal and informal. In other words, how the network operates and is governed (e.g. mechanisms for information exchange and conflict resolution, how benefits and duties are distributed)
	Critical Critical Points in Networking Process		
		Achieve a Better Network Viability	The extent to which the network is recognised as an entity by both members (internally and non-members (externally))
		Balance = Everyone is Equally Benefitted	All members equally contributing, enjoy equal benefits
		Accountability	The extent to which the allocation of resources and rights is based on measured contributions, preferences and 'weight' of each network member on a collective preference function. In other words, the extent to which what happens, what was achieved and by whom are assessed correctly, counting also in the influence of the external environment on outcomes. It can be achieved e.g. by setting quality standards and a payment system according to these standards
			Segregate Those Respecting the Agreement from the Offenders
		Discipline	The extent to which the members obey to some collectively set rules/agreements, either formal or informal
		The Network Has Some Results	Some of the network benefits promised to the members are early experienced, confirming the network existence and development
		Managing Conflict or Opposition	Explaining the nature of emerging conflicts and disposition from both members and non-members and the responses of the network actors
			Investigating links between power distribution (e.g. decision making) and network (especially reward rights) among people and their tendency to create conflicts or oppose collective agreements
		Reaction depending on people power and influence	
		Who opposed	
		Managing Internal Differences in Attitudes	The extent to which there is diversity and inconsistency in the attitudes of the network members
		Trust	
		Formality (contracts/cooperatives, memorandum etc.)	The extent to which the rules for the allocation are fair and clearly defined in a formal way
			The extent to which the network positions of responsibility are covered only by actors who are sufficiently qualified
			The extent to which the network members are sufficiently qualified according to the needs of their network position of responsibility
		Adequate Qualifications	
			Whether interviewees have identified any distinct stages/phases in the evolution of their network initiative
	Networking Stages		

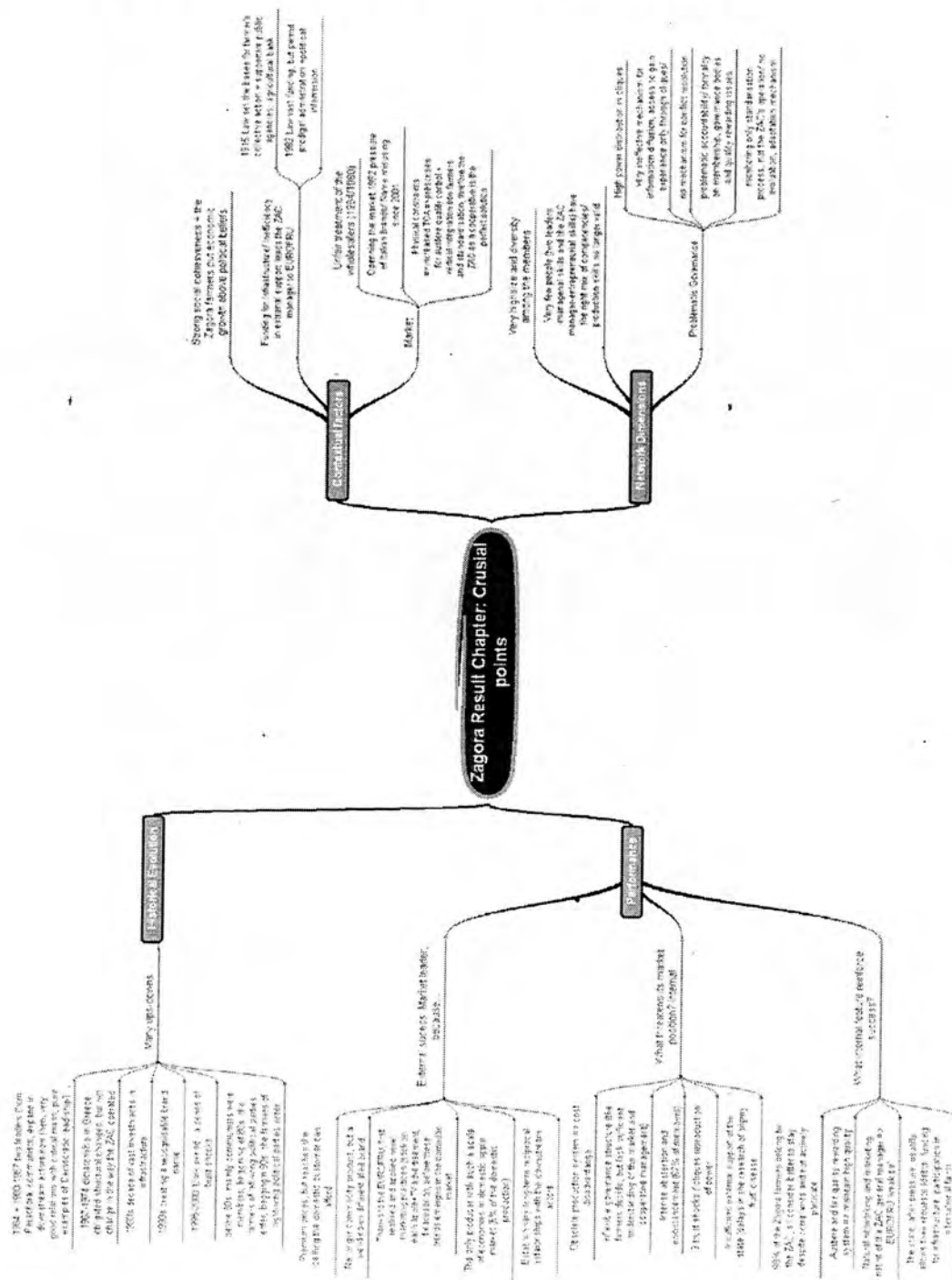
Category	1st level of codes	2nd level of codes	4th level of codes	Code Definition
Network Description				
		Stimulus for Networking Initiative		
			Coaching & Serving Real Interests	The extent to which the network initiative satisfies real needs of its members
			Focus on the Level "ABOVE" the Competition	When competing actors realise common problems that can be addressed only collectively
			Legitimated & Clear Intentions	The extent to which other persons intentions of the network initiator or facilitator are clear and legitimated
			Role of Network Initiator or Facilitator	Network members' opinion about the role of the leader (in bottom-up initiatives) or the facilitator (in top-down initiatives)
			Funding Opportunities	
	Network Governance			
		Criteria for Network Entry		Membership criteria: formal and informal
		Penalty - Internal Control Mechanisms		The extent to which internal control mechanisms for the network exist and applied, communicating what behaviour is acceptable or not
		Operation Procedures		How decisions are taken and applied at the network level?
	Network Structure			
		Criteria for Selecting Collaborators		e.g. gender, age, location, land size; having a second job & attitudes e.g. cooperative spirit, ability to change attitudes/perceived role, long or short-term perspective
			Number and Features of Network Members	
				Assessing the ease of the network configuration to be adjusted to different demands e.g. a dramatic change in market conditions
		Flexibility of Scheme		
SME level				
	Description of the SME			e.g. structure, size, activities, number of employees
	Evolution of the SME			company history
	Features of SMEs Influencing Marketing & Performance			Apart from network involvement, what features of their own firm influence its marketing success and performance?
	SME's goals			

Example of Matrix Developed for the Analysis of the Kefalas Networks (Phase 3):

NETWORK	PHASE	PHASE FEATURES	CRITICAL POINTS-ALTERNATIVE WAYS	SELECTION CRITERIA	CONTEXTUAL INCENTIVES FOR NETWORKING	CONTEXTUAL DISINCENTIVES FOR NETWORKING
Network A: Supply chain of organic olive oil	Phase A.3 Kefalas Ltd. decided to increase the control of the olive oil on its stakeholders' product which was stored at their homes.	55. From 1999 to 2001, Kefalas Ltd. moved its own facilities, especially storage space. This limited the control of the olive oil on its stakeholders' product which was stored at their homes.	63. These Kefalas farmers reached in the establishment of Kefalas Ltd. needed to change their attitude from simple farmers to stakeholders' farmers. This required them not only to show respect to government mechanisms (see 38 related also to significant delays in payments by the Kefalas Ltd. for the product supplied).	80. Since considering the a shareholding and lack of social treatment among stakeholders was fundamental for the sustainability of Kefalas Ltd., the manager reached directly to the first group of stakeholders. He refused after to rebuy the product of those who did not reward their work, although they were permitted to keep their shares in Kefalas Ltd.	71. The social inclusiveness was evident at the phase, since the majority of farmers kept their word to Kefalas Ltd. despite some unfavorable prospects and enticing external offers. They did not quit Kefalas Ltd. when it needed their support. The Kefalas stakeholders trusted the management and some of directors by voting on their production. Also, they dealt with the high cost and difficulty of organic farming with patience via a cooperative effort (see later 42).	73. Due to the spectacular increase of the stock market of Greece, wholesalers' stock market units in Greece were showing less interest in buying products and on the other hand the farmers' stakeholders of Kefalas Ltd. were requiring cash for investment in the stock market. This situation led the manager of Kefalas Ltd. to a decision.
		56. Some buyers offered an attractive price to stakeholders of Kefalas Ltd. to make them break their word to deliver all their quantity to the firm.	64. Besides benefit costs among stakeholders. The stakeholders reaction to equal shares in that regard to their and a set with the high expectations for Kefalas were calculated per kilo produced.	70. Not establishing social benefits. Both the stakeholders and profits from sales are apportioned per kilo, so these stakeholders producing large production volumes pay more advantages but they have more profit. Thanks to equal shares, the role of all stakeholders has the same importance in the elections of the board of directors.	74. Kefalas Ltd. lacked its own facilities especially storage space. This limited the control of the olive oil on its stakeholders' product which was stored at their homes.	75. Considering Kefalas Ltd. as a competitor, the other standard unit in its olive oil market of holding in terms of providing information about organic farming, the standardization process and marketing. The public agricultural agencies lacked of this information. Kefalas Ltd. lacked any close relationships with actors trading olive oil in order to overcome this problem.
		57. Those showing independent work created by the management of Kefalas Ltd. Since then, only 18 stakeholders have full access to benefits of Kefalas Ltd.	65. The reaction of the local dominant actors of the supply chain for organic olive oil.			
		58. The stock market of Greece had a spectacular increase during the majority of the Greek period after to invest only in the stock market. Also, the stakeholders of Kefalas Ltd. needed money to pay off the bank loans.	66. How the need for students discipline would be communicated to the Kefalas stakeholders? In other words, how those showing discipline would be so strict and punished to make an example for the rest without causing more problems further for the company?			
		59. The manager of Kefalas Ltd. could not sell their product and pay back the stakeholders for a long time.				
		60. There was some disappointment and a wonder among the stakeholders. Of course, the manager of Kefalas Ltd. admitted that difficulties had overcome him. This was a shock for the stakeholders.	67. Features of the olive oil mass and its control: the extent of agro-knowledge about real market challenges, the ability of human resources to supply the needs of the company with expertise, the disposition to admit their lack of skills/competence, the access to other concepts/overseas, the ability to see the bigger picture, long instead of short term benefits, collective instead of personal benefits, the disposition to disapprove, mediocrity and the lack of special treatment, not breaking their own words/promises, the obedience to non-activist expectations of others.			
		61. Recognizing the lack of market expertise, Kefalas Ltd. temporarily assigned an agricultural dealing with olive oil experts to the Kefalas marketing (instead of costing ability of money, that agricultural could not change the adverse economic situation in which Kefalas Ltd. was).	68. The reaction of the Kefalas stakeholders to the olive oil which followed the introduction into the olive oil market conditions, especially, their reaction to a dead-end situation.			
		62. Kefalas Ltd. struggled to find information about the organic farming, the standardization process and marketing.				

BEHAVIOURAL INCENTIVES FOR NETWORKING	BEHAVIOURAL DISINCENTIVES FOR NETWORKING	PRIVALLING FACTOR	IMPACT ON NETWORK EVOLUTION	MARKET ORIENTATION ATTITUDE	PHASE	NETWORK
<p>76. The Kofalas stakeholders had decided not to borrow money from any bank but to wait to be paid for supplying raw materials, their product, after the Kofalas Ltd. has managed to sell it.</p> <p>77. In spite of some disappointment and despair, when the Kofalas stakeholders when they came face to face with a dead-end situation they reacted positively. In particular, once their leader and manager of Kofalas Ltd. admitted that difficulties had overcome him, so the stakeholders were left free to decide by themselves. Even if this declaration was a shock for the stakeholders, it resulted in stopping complaints and showing patience. Even then, the stakeholders they did not lose their trust on their leader but they ran the risk of losing their faith to their entrepreneurial nature.</p>	<p>78. The process operating between farmers and wholesalers or standardisation units reacted too often to the formation of Kofalas Ltd. since they were by-passed. They offered extremely attractive prices to make stakeholders renounce their work of delivering the whole quantity to Kofalas Ltd.</p> <p>80. The Kofalas stakeholders found difficult the change in attitude from farmer to stakeholder-farmer.</p> <p>81. The Kofalas stakeholders realised at this phase many difficulties which they had about the difficulties of the market and the prospects of their entrepreneurial initiative. In other words, they realised at this phase false impressions and hopes for the reality e.g. the market, how well they were prepared for this initiative, how far they could go. Due to the lack of knowledge, they used to have excessive enthusiasm and expectations.</p>	<p>94. Prevailing factors Factors 81+83 were counterbalanced by factors 71+77+78</p>	<p>85. This phase was a hard experience for Kofalas Ltd. partially due to the inexperience of external environment and partially to its own inadequate prior knowledge about real market challenges. Thanks to high social consciousness and the manager's dedication to build a sustainable basis through discipline, the shock did not lead to the destruction of Kofalas Ltd. On the contrary, the Kofalas stakeholders realised not only their lack of expertise, but also the intensive need for improvement and responsibility in order to deal with market challenges. Additionally, they reduced their expectations for Kofalas Ltd. to the level of feasible ones. Those showing signs of discipline stood out and were labelled. Overall, Kofalas Ltd. became more solid in attitude and perceptions of its stakeholders through this phase.</p>	<p>86. During this phase, the Kofalas stakeholders comprehended fundamental features of the world organic market of olive oil: e.g. the market size, the existing competitors and their marketing practices. On the other hand, they realised their own deficiencies in expertise. Consequently, Kofalas Ltd. focused on product quality improvement and the effort to add value and create an identity for its product. The intensive information and discipline has gradually persuaded the Kofalas stakeholders and cooperating farmers to become more professional and market-oriented.</p>	<p>Phase A.3 Kofalas Ltd. faced here times of crisis on</p>	<p>Network A: Supply chain of organic olive oil</p>
<p>78. Features of critical mass=stakeholders of Kofalas Ltd.: admitted their lack of skills/experience; the leader had access to experts e.g. lawyers, accountants, employees of the local and national government; the leader had a great ability to see the bigger picture and effectively communicate it to the rest of the critical mass; long instead of short term benefits; collective instead of personal benefits; not breaking their own tradition so some obedience to instructions/suggestions of others due to the lack to the ability of the board of directors and management to take beneficial decisions.</p>	<p>82. Since those who had experience of processing and selling organic olive oil kept a defensive attitude and refused any information exchange, Kofalas Ltd. was obligated to rely on its members' limited knowledge and fruitful efforts to understand by themselves. The educational level of human resources of Kofalas Ltd. was too low to cover such sophisticated needs.</p> <p>83. Features of critical mass=stakeholders of Kofalas Ltd.: limited prior-knowledge about real market challenges; the Kofalas farmers had no difficult expertise to run a company; lack of access to other expertise sources relative to agribusiness trading and processing; many their leader had the ability to see the bigger picture; long instead of short term benefits; collective instead of personal benefits; low disposition to discipline; democracy and the lack of special treatment.</p>					

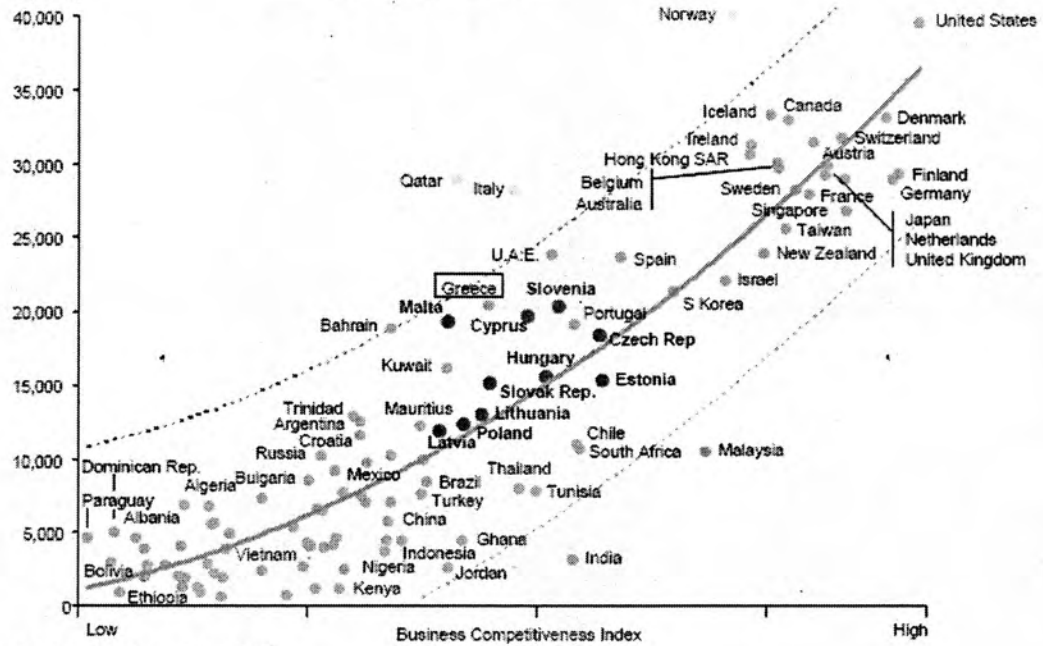
Example of Mind Map of Crucial Points for the Zagora Case:



Business Competitiveness and Prosperity

2004 GDP per Capita
(Purchasing Power
Adjusted)

Business Competitiveness Index 2005
Relationship with GDP Per Capita



Source: Global Competitiveness Report 2005